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#### UNIDO POLICIES

#### UNIDO programme for small- and medium-scale industries

Submitted by the Director-General

#### Summary

Pursuant to Board decision IDB.9/Dec.2, proposes a framework for placing UNIDO activities on small- and medium-scale industries on a programmatic basis within the programming exercise of the medium-term plan, 1992-1997.

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#### Introduction

1. In the mandates given to the Director-General, the policy-making organs have repeatedly placed emphasis on small- and medium-scale industry\*

\* The generic reference small- and medium-scale industries also covers micro and rural industries and the informal sector. It must also be borne in mind that such industries are at the centre of private sector development.

in the industrialization process of developing countries. In addition to decision IDB.9/Dec.2, which provided the basis for the present report, the policy-making organs have specifically included small- and medium-scale industries in other mandates, such as General Conference resolution GC.3/Res.21 on the medium-term plan, 1990-1995, and Programme and Budget Committee conclusion 92/10 on the draft medium-term plan, 1994-1999.

2. The Industrial Development Board, in decision IDB.5/Dec.45, requested the Director-General that in the strategy for the fourth United Nations development decade, UNIDO should especially strengthen and expand its activities in the fields of human resource development, establishment of small- and medium-scale industries, development and transfer of technology and promotion of investment. In line with the emphasis accorded small- and medium-scale industries by Member States, that field represents one of the five priority problem areas both in the medium-term plan, 1992-1997 (PBC.7/17), and in the draft medium-term plan, 1994-1999.

3. Commensurate with the emphasis placed by UNIDO policy-making organs on small- and medium-scale industries is the importance attached to that area elsewhere in the United Nations system. In particular, in its resolution 45/196, the United Nations General Assembly expressed the conviction that entrepreneurship should be encouraged at all levels and in all sectors for the setting up of industries and that there was a strong potential for the development of small- and medium-sized industries that could contribute to the expansion of both urban and rural employment

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opportunities and eradicate poverty. In the same resolution the General Assembly reaffirmed the role of UNIDO as the coordinating organ in the United Nations system having primary responsibility for promoting and accelerating industrial development and the transfer of industrial technology to developing countries.

## I. BACKGROUND

4. Governments in developing countries face major challenges in their efforts to improve standards of living, combat poverty and increase absorption of their rapidly expanding labour forces. In reformulating their economic development strategies, many Governments now recognize that particular attention must be given to furthering small and medium industries as cornerstones of long-term social progress. Their flexibility, dynamic adaptation to changing market conditions, ability to respond to technological innovation and their contribution to employment and decentralization policies make them significant engines of economic growth.

5. Typically, the formal small- and medium-scale industries sector contributes a significant percentage of industrial output and absorbs on average well over 50 per cent of industrial employment. (The proportions would be much greater if "informal" industrial activities were included.) The great potential offered by such industries, especially in terms of building up a broader and more resilient base for industrialization, is a challenge in itself, since great difficulties have to be overcome in fostering and accelerating their development. In principle, their promotion should be pursued as an integrated component of macro-industrial policy that takes into account different branches of industry in a non-discriminatory fashion. The legal system, the mix of regulatory and promotional policies as well as the macro-economic adjustment policies introduced to offset occasional external imbalances have all to be reviewed carefully in terms of their positive or negative impact.

6. Prior to setting up new policy measures, Governments may find it more expedient to remove bottlenecks and biases that have been built up against the small industry sector. However, deregulation alone will not transform the evident dynamism of small entrepreneurs into a viable base for modernization. Appropriate policy reforms have to be accompanied by institutional reform and proactive approaches. A truly viable small industry sector requires proper interface with other dynamic structures of the "modern" industrial sector: the productive network of large enterprises, formal banking systems and opportunities for entry into international markets.

7. UNIDO programmes, activities and instruments that address small- and medium-scale industries and the private sector in the developing countries have changed considerably in the last decade, especially where public enterprises have proven burdensome to Governments and servicing the external debt has eaten up foreign currency earnings and export incomes. UNIDO has responded to structural adjustment efforts of Governments to adapt themselves to global developments and the dynamics of world markets along with internally-oriented measures to simultaneously promote growth, reduce inflation and public sector deficits, and re-establish domestic stability. Finally, as a result of market-oriented changes in many countries, UNIDO has undertaken to

strengthen its programme by privatization measures whereby advice and assistance are provided to help small units spin off from large public enterprises.

8. Adjustments in the UNIDO technical cooperation programme for small- and medium-scale industries evolved towards the end of the 1980s as a result of project reviews, in-depth evaluations and studies and consultations carried out with other multi- and bilateral agencies as well as with private consulting groups. This new orientation was also brought about by considering the changing requirements of small- and medium-scale industries clients in the 1990s and the need to mobilize in-house resources more effectively for a UNIDO-wide response.

9. The reoriented UNIDO strategy is thus directed towards providing a comprehensive package of services designed: (a) to promote commercially viable and growth-oriented small industrial enterprises and support small private entrepreneurs able to create and sustain jobs and incomes; (b) to improve access of small- and medium-scale industries to financing with particular regard to the special problems of disadvantaged target groups; (c) to strengthen institutional support mechanisms in cooperation with non-governmental entities and private sector groups; (d) to integrate the small- and medium-scale industries sector with the modern industrial sector through policy reform, technology promotion and development, and industrial partnership on a national or international basis.

10. The accumulated experience of UNIDO in the field of small- and medium-scale industry clearly shows that its development is most effective when efforts are integrated at three distinct levels: (a) policy; (b) institution; (c) enterprise. UNIDO assistance is identified at the critical entry level where the need is most pressing while the corresponding requirements and/or impact at the other levels are taken into account. A comprehensive plan of action is then drawn up to provide the services needed at one, two or all three levels of intervention, as appropriate.

11. Project inputs therefore assume a modular structure to ensure focus, customized responses and flexibility. These factors are all built into the design and implementation of UNIDO interventions.

12. To implement the UNIDO strategy for small- and medium-scale industries, a team approach involving various parts of the Organization has been adopted. This will help ensure sustainability and long-term prospects of the integrated modular programme approach including thematic or subsectoral analyses and country studies. The modules can draw from a variety of substantive programmes, consolidated into an integrated approach to ensure interdivisional complementarities.

## II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME

13. The development objective of the programme is to enhance the contribution of small and medium industries to industrialization and private sector initiatives within the framework of overall economic and social development goals.

## III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME

14. The priorities of the programme for small- and medium-scale industries and the respective target groups addressed are given below:

### Priority

(a) Developing a sustainable environment conducive to promoting the growth of small and medium industrial enterprises by, inter alia, adopting and implementing policies and strategies to facilitate the access of small- and medium-scale industries to financial, technical and technological resources (policy level)

(b) Strengthening institutions and mechanisms to promote small- and medium-scale industries by providing effective support services, including access to financial, technical and technological resources, and facilitating inter-firm cooperation and complementation (institutional level)

(c) Development of small- and medium-scale industries by enhancing entrepreneurship and facilitating access to information and resources (finance, marketing and technology) within an integrated programme approach and subsectoral systems (enterprise level)

### Target groups

Legislative, planning, and executive governmental bodies in the developing countries

Concerned public and private sector institutions, non-governmental organizations, associations and other cooperating groups of industries

Industrial enterprises in developing countries within selected subsectoral systems

15. In addition, more attention needs to be given to enhancing UNIDO advisory support functions for small- and medium-scale industries through:

(a) mobilization of appropriate responses to changing requirements; (b) mobilization of financial resources; (c) access to sources of technology and know-how; (d) networking and outreach activities such as international exchange and industrial information services to small- and medium-scale industries.

16. To achieve those priorities, UNIDO will systematically monitor changes and analyse developments affecting the small- and medium-scale industries sector with a view to enhancing the capacity of the Organization in providing advice on policy options, guidelines and directives for the sustained modernization and growth of small- and medium-scale industries in developing countries. UNIDO will also carry out referral and clearing house functions and will undertake specific problem-solving research.

### IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

17. The proposed programme comprises four sub-programmes which together address the priorities outlined in the paragraphs above.

Subprogramme I: Assistance in creating and sustaining an environment that is conducive to the growth of small- and medium-scale industries by adopting and implementing macro policies and programmes that optimize the contribution of small- and medium-scale industries to a balanced development of the industry sector. (Developing enabling environments)

Subprogramme II: Assistance in strengthening institutions and mechanisms for small- and medium-scale industries that provide services and complementary resources (finance, technology, information, management, market). (Developing demand-oriented institutional mechanisms)

Subprogramme III: Support to small- and medium-scale industries development at the enterprise level within a priority subsectoral system. (Integrated programme and subsectoral approach to small- and medium-scale industries development at the enterprise level)

Subprogramme IV: Research concerning the relation between small- and medium-scale industries and topical issues of social and economic development, and preparation of innovative concepts, programmes and projects to address priority needs identified such as poverty alleviation, globalization of industry and food security. (Contribution of small- and medium-scale industries to global development themes)

### Subprogramme I: Developing enabling environments

#### I.1 Problem to be addressed

In most developing countries, macro policy frameworks have a built-in bias favouring large industries which could hamper the development of small- and medium-scale industries. Therefore, there is a need for effective integration of small- and medium-scale industry policies and strategies in overall development plans and for harmonizing macroeconomic, fiscal, financial and other policies with incentive measures for small- and medium-scale industries. Moreover, there is often a wide discrepancy between pronouncements of intent to cater for small- and medium-scale industries and implementing such strategies. Policy measures need to be backed by legislative instruments, financial schemes and appropriate mechanisms and institutions to facilitate the growth of small industries and increase the supply of capable entrepreneurs;

Policy reform may have to start with deregulatory measures - not only to remove those measures that are directly discriminatory to small- and medium-scale industries, but to arrest legislative flaws and burdensome procedures that are simply too complicated and not transparent enough for small- and medium-scale industries to benefit from them.

#### I.2 Objective

To support developing countries in adopting and implementing policies and programmes conducive to sustained growth of small- and medium-scale industrial enterprises.

#### I.3 Subprogramme focus

(a) Policy measures and legal instruments to promote small- and medium-scale industries and to

stimulate investment and private sector involvement in the small- and medium-scale industries sector;

(b) Financial schemes to improve the flow of resources to small- and medium-scale industries;

(c) Strengthening government capacity for sustained policy planning, implementation and monitoring.

#### I.4 Outputs

(a) Policy and strategy advice and technical cooperation in designing and introducing policy measures for:

- (i) Improving the proactive role of Governments in promoting small- and medium-scale industries and rural industries in the private sector (fiscal, financial and other policy measures);
  - (ii) Ensuring that policies and strategies become operational and provide access to appropriate delivery mechanisms;
  - (iii) Enhancing entrepreneurial capacities of small- and medium-scale industries to perform effectively in dynamic and export-oriented markets;
  - (iv) Enhancing the role of private sector initiatives (e.g. chambers and associations of industries) in developing the small- and medium-scale industries sector;
  - (v) Industrial development options that contribute to alleviating poverty;
- (b) Strategies and action plans to facilitate privatization, to foster entrepreneurship, to create business opportunities in the private sector and to sustain an investment climate conducive for development of small entrepreneurs;
- (c) National programmes of action to develop an entrepreneurial culture in industry linked to educational and vocational training systems as well as addressing poverty-alleviation concerns and the integration of special human resource groups, particularly of women into the mainstream of industrial activities;
- (d) Advisory projects for special loan schemes to small- and medium-scale industries, such as credit guarantees, equity sharing and venture capital, addressing specifically the constraints faced by women; lending schemes for small- and medium-scale industries in specific situations, such as for upgrading technology to reduce environmental hazard.

#### I.5 Activities

(a) Analysis of relevant policy, legal and regulatory framework, incentive systems directing economic activity at the country and regional levels;

(b) Consulting with Governments on setting priorities for industrial development within the

general economic framework, with a view to deriving appropriate policy measures and programmes to promote and sustain the development of small- and medium-scale industries;

(c) Consulting with the private sector on constraints faced, government action desired in promoting small- and medium-scale industries and for stimulating investment and private sector initiatives;

(d) Preparing policy options and advising decision makers on merits and/or advantages and disadvantages of policy options and programmes recommended;

(e) Providing technical cooperation and technical support services in designing and implementing policies and programmes to foster small- and medium-scale industries.

#### Subprogramme II: Developing demand-oriented institutional mechanisms

##### II.1 Problem to be addressed

Developing countries confront a series of problems in making institutions and mechanisms more responsive towards supporting growth-oriented small- and medium-scale industries. While much depends on the macro-policy environment, there is also a need to re-evaluate the services being delivered in view of the increasing role to be played by the private sector in general, including non-governmental organizations (NGOs). There is also a need to adapt existing institutions to the changing requirements of the small- and medium-scale industries sector utilizing their full capacity and to translate policy measures into effectively functioning institutional support mechanisms for small- and medium-scale industries development;

Small- and medium-scale industries face particular problems in finding access to institutional finance because commercial and development banks find financing of small and rural industries too costly to administer and too risky. As at the policy level, much has to be done at the institutional level to introduce special loan schemes and to reorient operations of development and commercial banks. Special support mechanisms for small- and medium-scale industries need to be introduced to mobilize financial resources including incentives for joint ventures and other forms of foreign investment. In particular, institutional constraints to disadvantaged groups, such as women's access to finance, need to be identified and addressed;

Further, encouragement should be given particularly to private sector initiatives for support services to small- and medium-scale industries provided by, for example, chambers of commerce and industry, industry associations and NGOs.

##### II.2 Objective

To enhance the effectiveness of institutions to support small- and medium-scale industries development, and to establish mechanisms to provide incentives and services based on actual demands of the sector.

### II.3 Subprogramme focus

(a) Institutions and infrastructure for small- and medium-scale industries; special support mechanisms and facilities that are small- and medium-scale industries specific and multi-sectoral; subcontracting exchanges, industrial estates and business incubators; financial institutions; quality control, standardization institutions;

(b) Subsectoral institutions with small- and medium-scale industry service functions.

### II.4 Outputs

(a) Improved institutional infrastructures and mechanisms and extension services for small- and medium-scale industries, including:

- (i) Small- and medium-scale industries training and extension service institutions, consulting groups;
- (ii) Quality control, standardization and metrology institutions providing testing and certification marking;
- (iii) Research and development (R and D) institutions and consulting groups more responsive to small- and medium-scale industries needs in acquisition and adaptation of suitable technologies, including those from abroad;
- (iv) Industrial information services as well as advisory and training facilities specialized in the acquisition of technologies for the small- and medium-scale industries sector, including the Technological Information Exchange System (TIES) and Industrial and Technological Information Bank (INTIB) focal points;

(b) Operational model schemes for business and technology incubators to support new entrepreneurial ventures and start-ups; networks of small- and medium-scale industries around dynamic R and D institutions, including universities, to foster cooperation and commercialize R and D achievements;

(c) Special support mechanisms to promote entrepreneurship and to create jobs, especially for low-income groups and in depressed areas, including outreach activities and model schemes for the development of rural small-scale industries and entrepreneurship among rural and disadvantaged groups such as women;

(d) Guidelines and advisory support in developing industrial subcontracting exchanges and other complementation mechanisms, industrial estates and export processing zones (EPZs).

### II.5 Activities

(a) Providing advisory support and technical cooperation to improve demand orientation and efficiency of institutions serving small- and medium-scale industries, including developing of models to improve infrastructures and extension services based on the analysis of demand and experience acquired through technical cooperation programmes;

(b) Designing and implementing pilot activities, programmes and projects for establishing technology and business incubators;

(c) Developing guidelines, preparing and disseminating manuals, providing advisory support on subcontracting exchanges, industrial complementation arrangements, industrial estates and EPZs;

(d) Adapting and specializing UNIDO industrial information services to respond to the demands of the small- and medium-scale industries sector;

(e) Providing technical support services to programmes and projects aimed at improving institutional infrastructures and extension services for small- and medium-scale industries;

(f) Providing technical support in capacity building (training of trainers).

### Subprogramme III: Integrated programme and sub-sectoral approach to small- and medium-scale industries development at the enterprise level

#### III.1 Problem to be addressed

The development of the small- and medium-scale industries sector is generally handicapped because those enterprises lack adequate access to resources and/or information to utilize opportunities for growth. In addition to an unfavourable general policy environment and difficult access to finance, the major constraints confronting small- and medium-scale industries in bringing about effective improvements in productivity and quality are the lack of modern management techniques, insufficient knowledge of markets and marketing strategies, a low level of process technology and narrow product ranges, insufficient knowledge of technology options and strategies for technology acquisition;

However, at the enterprise level the numbers and nature of small- and medium-scale industries makes general coverage of subsectors and requirements very difficult. At this level UNIDO intends therefore to address the problems of small- and medium-scale industries within the context of focused integrated programmes. Each programme would incorporate analysis and activities in the areas of policy, technical cooperation, investment and financing within the industrial system concerned;

The programmes would be designed in a modular fashion but within an overall framework that would be developed based on a careful analysis of a given industrial subsector or system. In most or all such programmes small- and medium-scale industries would play an important role and separate components (projects) could deal with small- and medium-scale industries aspects in each major area of cooperation such as leather, fisheries or agricultural equipment;

When the focus is subsectoral, the imperative for close integration among the policy, institutional and enterprise levels becomes obvious. Subsectoral support institutions and technical associations, rather than UNIDO as such, must carry the major responsibility for technology transfer to and intervention at the enterprise level. Equally important are the benefits which

small- and medium-scale industries, within the framework of subsectoral activities, derive from stronger linkages to large-scale enterprises in closely related fields as well as to raw material suppliers and the industrial users of their outputs. Such linkages enhance the flow of technical and technological information and may lead to improvement in product quality and range, as well as in efficiency.

### III.2 Objective

Full integration of small- and medium-scale industries aspects and components in integrated development programmes and subsectoral systems.

### III.3 Subprogramme focus

Industrial priority subsectors or systems at the country level such as leather, fisheries, agricultural equipment, furniture and woodworking.

### III.4 Outputs

Improved performance of small- and medium-scale industries in the subsector concerned. Depending on the subsector and country involved this may include:

- (a) Improved financial and management capabilities of small- and medium-scale industries;
- (b) New or improved technologies and production processes introduced in small- and medium-scale industries;
- (c) Improved export performance of small- and medium-scale industries;
- (d) New products successfully produced and marketed by small- and medium-scale industries;
- (e) Improved energy efficiency and environmental performance of small- and medium-scale industries;
- (f) Improved capability in effective technology selection-negotiation-acquisition of small- and medium-scale industries;
- (g) Industrial partnerships between enterprises and subcontracting arrangements concluded resulting in transfer of technologies, business software, expanded markets and combined financial resources.

### III.5 Activities

Depending on the subsector and outputs to be produced, this may include such activities as:

- (a) Providing consultancy and extension services to industrial entrepreneurs in management and marketing in the identification, formulation and promotion of viable investment projects, including those which require foreign investment;
- (b) Preparing industrial profiles for small- and medium-scale industries, taking into account their linkages within the subsector as well as with other subsectors and sectors;
- (c) Training entrepreneurs and strengthening their ability to (i) appraise the economic, technological and market trends as well as environmental and energy issues, policies,

regulations affecting demand and production; (ii) establish linkages with specialized R and D institutions, sources of know-how, licences, technologies, raw materials and global information networks;

(d) Providing advisory services and preparing a handbook on guidelines and model contracts for technology acquisition and negotiation;

(e) Training materials, manuals, guidelines, model schemes for entrepreneurship development, total quality management schemes, market analysis, marketing techniques and financial schemes.

### Subprogramme IV: Small- and medium-scale industries contribution to global development themes

#### IV.1 Problem to be addressed

As UNIDO intensifies its small- and medium-scale industries programme, the need to keep constantly abreast of changing signals and significant trends impacting on the programme will increase. This will necessitate reviewing the approaches for appropriate linkages with other developmental issues emerging in technical cooperation, as well as with other thematic areas of UNIDO's medium-term plan and concerns of the international donor community;

UNIDO will have to remain open, alert and respond in concert to such critical issues as: how does the small- and medium-scale industries programme integrate inputs from science and technology on the one hand, and on the other, how does it serve the cause of alleviating poverty and enhancing the quality of life within a concept of achieving ecologically sustainable development, while learning from experience and constantly adapting approaches?

#### IV.2 Objective

To promote research and debate on topical industrial development issues, their implications on the small- and medium-scale industries sector, and elaboration of appropriate responses translated into practical programmes for innovative field-level implementation. (This would include prioritization of UNIDO services in the area of small- and medium-scale industries and guidance on specialization and concentration of UNIDO activities.)

#### IV.3 Subprogramme focus

UNIDO's own experience in industrial development (its "institutional memory") and information on world-wide experience on the state of the art will be analysed and transformed into relevant advice and technical cooperation, using organizational capacity and external resources.

#### IV.4 Outputs

(a) Surveys and evaluation studies on the relevance to industrial development of global themes debated in the United Nations and other international forums, or which are emerging owing to changes in the global socio-economic environment, and/or emphasis on new areas of attention. Themes for the biennium 1994-1995 include: (i) contribution of small- and medium-scale industries to poverty alleviation efforts;

(ii) industrial contribution to rural development: the role of small- and medium-scale industries;

(b) Position papers on a UNIDO response to the above issues for discussion and debate in appropriate forums for sharing of experiences, validation of approaches (in the form of Consultations, expert group meetings or working groups);

(c) Programme composition elaborated to reflect the envisaged UNIDO contribution, based on operational experiences and comparative advantages of the Organization.

#### IV.5 Activities

(a) Reviewing of UNIDO activities and research of activities of other organizations in relation to a given thematic area, study of literature, data and documentation;

(b) Preparing issue papers for circulation to interested and involved parties;

(c) Calling for meetings, selecting mix of participants, moderating presentations, discussion and debate; preparing resolutions, action plans and meeting reports;

(d) Translating resolutions and recommendations into programmes and designing of suitable approaches to achieve desired results.

#### V. IMPLEMENTATION ARRANGEMENTS

18. The implementation of the small- and medium-scale industries strategy of UNIDO is based firmly on a team approach, pursuing the overall policy to offer industrial clients the best possible benefits of the accumulated experience and know how of the Organization.

19. To that end an interdepartmental working group has been established and has begun its work. Current activities of the working group include an in-house analysis of technical cooperation activities undertaken by UNIDO in the field of small- and medium-scale industries in recent years. Analyses and findings will be presented to a forum of experts from donor and recipient countries scheduled for September 1993. Recommendations resulting from that encounter will be duly acknowledged and brought to the attention of the General Conference at its fifth session.

#### VI. ACTION REQUIRED OF THE BOARD

20. The Board may wish to recommend to the General Conference for approval the proposed framework for a UNIDO programme for small- and medium-scale industries as outlined in paragraphs 13 to 17 of the present document.



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## Industrial Development Board

Eleventh session  
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### UNIDO POLICIES

#### UNIDO programme for industrial rehabilitation and modernization

Submitted by the Director-General

#### Summary

Proposes, in response to Board decision IDB.9/Dec.2, a framework for placing UNIDO activities on rehabilitation and modernization on a programmatic basis within the context of the medium-term plan, 1992-1997.

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#### Introduction

1. The present report is in response to Board decision IDB.9/Dec.2 which requested the Director-General to submit to the policy-making organs of UNIDO, for their consideration, UNIDO's substantive programme on industrial rehabilitation in order to complete the programming exercise of the medium-term plan, 1992-1997, on its five priority areas (human resource development,

development and transfer of technology, industrial rehabilitation, small- and medium-scale industries, and environment and energy). The mandate for the proposed rehabilitation programme also stems from United Nations General Assembly resolutions 45/196 and 46/146 on industrial development cooperation and the diversification and modernization of productive activities in developing countries.

#### I. BACKGROUND

2. In the 1990s, industrial rehabilitation and modernization - although more urgent in certain regions such as Africa - is a global requirement of deep concern to both Governments and the private sector of developing countries and those countries in transition. Whether due to war, famine, the failure of economic and political institutions, or mounting competitive pressures and/or the unprecedented challenges of transition from a command economy to a market-based one, the economic viability of many industrial enterprises is seriously jeopardized by their inability to respond to those pressures and challenges. This is due, among other things, to the lack of a conducive policy environment, lack of managerial and technical capabilities, and serious shortcomings in the supporting institutions and physical infrastructure. Individual enterprises often lack not only the financial and managerial resources but also the information and/or access to properly functioning financial markets to respond in an expeditious manner.

3. The original investment project often was based on unrealistic assumptions of domestic demand growth, availability of local raw material export prospects and price and supply developments. In many instances, investments were made on the basis of project concepts that were technologically too complex to be sustained over the long term without significant foreign assistance. Insufficient support in the form of training, other forms of industrial human resource development and auxiliary inputs also tended to drastically affect productivity. And macroeconomic and industrial policies, including trade and pricing policies, distorted product markets and production conditions in many countries.

4. Furthermore, the prevailing balance-of-payments crises in many developing countries have meant that their industries, which are generally highly import dependent, have been hard hit by interruptions to supplies of raw materials, replacement parts, components and other essential imported inputs. This has led to significant underutilization of production capacities and a precipitous drop in enterprise performance. In addition, the globalization of production, the movement towards trading blocs, rapid technological advances and a widespread move towards deregulation, liberalization, decentralization and privatization has meant that many developing countries are being forced either to restructure their industries or face the prospects of divestiture or liquidation. Moreover, investment rates in developing countries have fallen sharply. For example, in a sample of 30 developing countries, average total investment increased from 18 per cent of GDP in the early 1970s to a peak of 23 per cent in the period 1978 to 1982, and then declined to 18.5 per cent of GDP from 1985 to 1987. 1/

5. Public investment levels, which still play a significant role in many developing countries, have also fallen significantly. The share of public investment as a percentage of GDP has declined from approximately 10 per cent in 1980 to 8.3 per cent in 1987. 2/ The economies in transition have also experienced a significant fall in public investment levels in recent years and the level of foreign direct investment (FDI) is not yet significant in the region. Although figures for FDI are far from certain - especially for Eastern Europe - in 1992, Malaysia attracted \$3.85 billion in FDI from France, Japan and the United States of America, over two and a half times the level of FDI in Hungary, the recipient of almost half of all FDI to Eastern Europe excluding the former Soviet Union.

6. To kick-start economic growth many countries will need to raise the overall level of investment. To this end, a growing number of countries have initiated policies to increase the level of aggregate savings. But these measures will only begin to take effect in the medium to long term.

In the interim period, industrial rehabilitation in the form of more efficient utilization of existing installed productive capacities and improved productivity would be the most economical means of restoring dynamism, competitiveness and profitability to the industrial sector and overall economic growth in many countries.

7. To be successful, industrial rehabilitation must be a dynamic, forward-looking concept. The concept should be broadened beyond merely thinking in terms of benefits to individual plants - rather, it should be interpreted as securing optimal use of existing capacities and resources, through upgrading and transformation, for future general industrial growth. Industrial rehabilitation encompasses the notion of a minimum critical mass or configuration of assets, be they physical, financial or human for efficient profitable production. 3/ For example, a ceramics factory needs as a minimum requirement: clay, a mould, a kiln, a delivery vehicle, plant buildings and skilled workers. If any one of these assets are damaged or unavailable for whatever reason, production is reduced or stopped. Under normal circumstances, maintenance and repair is scheduled and budgeted and down-times are thereby kept to a minimum, and the enterprise therefore has self-upkeep capability. What distinguishes an enterprise which is in need of rehabilitation from one which does not is that the former suffers a prolonged failure of its self-upkeep capability so that the minimum critical mass or configuration of assets is not maintained. This can occur for many reasons, among others, due to loss of markets, insufficient revenue - often a lack of foreign exchange - inappropriate policies, general political and economic uncertainties, or as a result of damages and losses due to war or natural disasters, especially earthquakes.

8. The concept of industrial rehabilitation should also encompass the possibility of plant closure either in entirety or in part. In such cases it is recognized that there are important social and political implications to be considered. The established interpretation of the concept of rehabilitation may block such actions because it restricts the view of decision makers to the existing industrial structure. A wider and more forward-looking regeneration concept will help all parties concerned to understand that closure may be a necessary part of an attempt to establish an industrial structure with better prospects for sustained competitiveness. Rehabilitation should thus avoid re-establishing previous conditions for inefficient production and instead establish a new basis for viable production and overall growth.

9. Industrial rehabilitation activities cover the entire range of technical, technological, managerial, marketing, financial and industrial human resource development and training issues as well as overall structural and policy issues at the branch, subsector, sector and macroeconomic levels. As the approach covers a wide range of issues, successful implementation requires the expeditious mobilization of financial resources

1/ Pfefferman, G.P. and Madarassy, A., "Trends in private investment in thirty developing countries", International Finance Corporation Discussion Paper No. 6, Washington, D.C. 1989.

2/ Pfefferman and Madarassy, op. cit.

3/ Jaffey, M. and Tribe, M., Project Rehabilitation in Adverse Environments, Avebury Publishing Ltd., Avebury, 1992.

from domestic entities, both public and private, and from foreign multilateral, bilateral, commercial and financial bodies. Thus, although the relevant UNIDO subprogrammes focus on assistance to individual or groups of industrial enterprises, they also provide advisory services on policy and institutional reforms and the mobilization of financial and other resources for the rehabilitation and modernization process.

10. First and foremost, actual rehabilitation presupposes a detailed diagnosis of the enterprise(s) concerned and a cost-benefit analysis of eventual rehabilitation measures in the context of a consistent, coherent and phased rehabilitation programme. Secondly, industrial rehabilitation refers to the various technical, organizational and financial measures that need to be undertaken at the enterprise level to acquire or regain a self-upkeep capability to ensure a critical mass of assets and thereby enable the enterprise to survive as a viable entity in competitive markets. Industrial restructuring and the build-up of competitiveness calls for a dynamic development process within a country's economy, facilitating the entry as well as the exit of individual enterprises and creating conditions in which, if the situation so demands, ailing companies can be shut down, non-performing assets liquidated and resources freed for new investments. Thirdly, rehabilitation should be seen to encompass improvements in the economic policy and institutional environment of an enterprise or an entire industrial subsector as preconditions for successful enterprise-level restructuring. Thus an integral part of successful rehabilitation is the integration of macro-industrial policy actions with enterprise-level and institutional and other supporting measures. Of necessity, such actions and measures would touch upon industrial financing, building up efficient industrial services and, in general, strengthening the overall industrial competitiveness of a country's economy.

11. UNIDO has traditionally accorded high priority to industrial rehabilitation and modernization. Continuous emphasis over the years has been placed on developing a comprehensive integrated programme and approach which reflects the real needs and aspirations of developing countries. In this regard, the programme has addressed problems at the enterprise level within subsectoral, sectoral and macroeconomic contexts, mobilizing the involvement and joint implementation of many organizational units of UNIDO. Considerable attention has been devoted to the modernization of management structures, upgrading technology and facilitating technological absorption through appropriate management approaches and organizational schemes. Thus, many of UNIDO's large-scale projects have dealt with the upgrading and modernization of production and management capabilities. Attention has also focused on issues of plant performance and managerial improvement such as repair and maintenance and preventive maintenance schemes as well as on computer-aided management, information systems and accountancy training. Many UNIDO projects have stressed turn-around management and modernization with assistance in strategic diagnostics, turn-around workplans and the development of viable business plans. Increased involvement of local industrial consultancy services in rehabilitation

activities is desirable to many developing countries and the UNIDO rehabilitation programme has emphasized the development of local skills, particularly the improvement of national consultancy capabilities.

12. In the framework of the Industrial Development Decade for Africa, a special emphasis in UNIDO's rehabilitation work has been given to the rehabilitation needs of the African manufacturing industry. Assistance has included a series of diagnostics surveys of selected African countries; enterprise audits to develop bankable rehabilitation plans; a variety of direct assistance measures; studies on the impact of the debt problem on African industry; and specific management and human resource development in such areas as economic and financial analysis and marketing. Given the importance of these subsectors, particular attention also has been paid to agro-industries and skins, leather and leather products.

13. Since 1990, the UNIDO rehabilitation programme has given increased emphasis to the commercialization of industry, direct assistance to the private sector, and the transfer of commercially dedicated management techniques such as design for manufacture, total quality control, manufacturing resource planning, group technology and value engineering. In addition, the rehabilitation programme has been refocused in light of recent global, political and economic changes which have led to the need for substantial assistance in restructuring and privatizing state-owned industry. There has also been emphasis on the rationalization of manufacturing operations, adoption of cleaner technologies and the development of commercially viable business plans to enable enterprises to successfully face the existing and emerging challenges of the transition to market-based competitive economies.

14. Recently, the programme has launched an innovative approach - exemplified by a successful major restructuring project in Poland funded by the United Kingdom of Great Britain and Northern Ireland Know-How Fund - in response to the current sweeping changes in the global economy. In this approach, UNIDO offers an integrated programme of assistance to: (a) address immediate restructuring issues and help enterprises remain operational in the short run; (b) develop viable business plans and upgrade managerial and technical capabilities to assist and implement rehabilitation/business plans; and (c) to attract joint venture partners.

## II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME

15. The development objective of the proposed programme is to enhance the economic and technical performance and viability of industrial enterprises, thereby increasing their competitive strength and regenerating industrial growth in the recipient countries.

## III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME

16. The priorities of the programme and respective target groups are:

### Priority

### Target groups

(a) Strengthening national capabilities in order to identify, assess, formulate and implement programmes and policies that meet local rehabilitation and modernization requirements at the industrial enterprise and sectoral levels

Industry (public, private individual enterprises), legislative and planning organs in Governments of recipient countries, industry sector or subsectoral associations, training and research institutions, industrial services entities

(b) Support to countries in designing and implementing appropriate industrial policy measures at the enterprise, subsectoral and sectoral (national) levels and in drawing up appropriate financial, economic and technical packages for rehabilitating and modernizing their industries and industrial enterprises

As above

(c) Provision of coordinated international support to implement the rehabilitation of enterprises, drawing on engineering, design and other technical services (including areas as diverse as quality control, packaging and maintenance), management development, investment analyses, industrial human resource development, and negotiation and procurement services

As above

(d) Promotion of the mobilization of financial resources for industrial rehabilitation and modernization

In addition to all the above, development finance institutions in both developing and developed countries

17. The guiding principle governing the rehabilitation programme of UNIDO is the pursuance of an integrated, multidisciplinary approach - involving all three substantive major programmes in UNIDO: Industrial Operations, Programme and Project Development and Industrial Promotion, Consultations and Technology - in close cooperation with the local actors and other relevant international agencies such as the World Bank and the regional development banks.

Subprogramme III: Promotion of direct investment and mobilization of resources for the industrial rehabilitation and modernization process (undertaken within the subprogrammes of all three major programmes such as Industrial Cooperation and Funds Mobilization; Industrial Investment; and Industrial Institutions and Services as well as Industrial Operations Support).

#### Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability

### IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

#### I.1 Problem to be addressed

18. The proposed UNIDO rehabilitation programme addresses the above priorities (a) to (d) and its subprogrammes relate to the following:

Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability (as in the Agro-Based, Chemical, Metallurgical, and Engineering Industries as well as Industrial Strategies and Policies, Institutional Infrastructure, and Industrial Management and Rehabilitation - all of which fall under the major programme, Industrial Operations).

Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation and modernization (carried out mainly within the subprogramme of the major programme, Programme and Project Development: Global Issues and Policy Analysis, Regional and Country Studies, Industrial Statistics and Sectoral Surveys).

In many developing countries and countries with economies in transition, changes in external and internal economic conditions and emergent challenges to established industrial production structures have led to a drastically deteriorating performance of some industrial enterprises - in many cases, key enterprises. This has resulted in low capacity utilization and a growing risk of widespread financial collapse because of the linkages of key enterprises. In some instances, economic parameters and market developments as perceived at the investment stage have subsequently proved to be invalid; in other instances, drastic deregulation, disarmament or privatization programmes have forced industries to restructure completely or close down. Whereas some companies cannot be salvaged and have to be liquidated, many can be revitalized through the provision of appropriate assistance and investment resources. For example, in many instances rehabilitation efforts might focus on overhauling machinery and

other installations and reassessing production programmes, current capacities and technologies employed. In relatively small industrial enterprises where funds are scarce, a "repair-or-replace" exercise can be conducted for each machine or piece of equipment to determine exactly the financial outlay involved. A growing concern of many countries is the environmental pollution caused by ailing enterprises. Rehabilitation, the general subsector restructuring process, and pricing energy supplies at world market levels will often force enterprises to adopt environmentally cleaner technologies and processes. As has been UNIDO's experience in many cases, individual enterprises can do much by their own efforts towards rehabilitation. For example, in a food-processing enterprise in Zambia, UNIDO found that simply improving process flows and reorganization of management responsibilities - issues that could be undertaken by the enterprise itself - led to a 20 per cent increase in efficiency. In other cases, enterprises require policy and institutional support from Government, industry associations, including from international sources (IDB.11/2, paras. 5.124-5.134).

In many cases, enterprises need major injections of capital - especially working capital - technology transfers and technological know-how, managerial upgrading, training and other resources. These additional resources for rehabilitation are often sought from domestic and international sources. But whatever the source of these additional resources, they should be provided on an economic basis according to established market principles and not as a grant, in order not to distort market conditions and to ensure the proper commercial scrutiny of operations by the enterprise itself. In the ultimate analysis, through the revitalization and modernization of selected (key) industrial enterprises, industrial growth and employment can be generated and the dynamism of the industrial sector restored.

## I.2 Objective

To improve the overall economic and technical performance of individual industrial enterprises through specific rehabilitation and modernization efforts and thus lay a solid basis for profitability, competitiveness and environmentally sustainable production.

## I.3 Subprogramme focus

Oriented towards industrial enterprises with important employment and structural linkages that offer significant growth prospects.

## I.4 Outputs

(a) Diagnostic reports at the enterprise level analysing, inter alia, the financial performance, value of assets, managerial and organization systems, productivity, skill profiles, marketing, input and product mix, technology profile, production and quality control processes, environmental impact and energy consumption;

(b) Rehabilitation proposals covering, inter alia, internal restructuring and modernization programmes, raw material requirements, investment, product development, upgrading of skills and market research;

(c) Feasibility analyses of investment proposals;

(d) Industrial enterprises rehabilitated through comprehensive assistance programmes.

## I.5 Activities

(a) Carrying out detailed performance and resource diagnoses of selected industrial enterprises in terms of financial, technological, technical, organizational, marketing and other factors affecting the competitiveness and viability of enterprises;

(b) Designing packages of rehabilitation measures for specific enterprises, including investment projects;

(c) Evaluating the profitability of investments and identifying other resources required for the rehabilitation of enterprises;

(d) Assisting in the improvement of various aspects of enterprise management and plant operation, including market research and marketing, financial control and accounting, and management information systems, as well as engineering, product development, repair and maintenance and quality control.

## Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation

### II.1 Problem to be addressed

Declining performance and eventual bankruptcy of some industrial enterprises are inherent features of a dynamic competitive industrial development process in a country. However, this can also be an indication of inadequate economic or industrial policies and other shortcomings in the economic environment or the result of sudden changes in key parameters - such as the abrupt loss of input and output markets, increases in the prices of previously subsidized energy inputs to world market levels - particularly in international markets. Introducing new industrial policy measures, drawing up special structural adjustment programmes at the sectoral and subsectoral levels and building up greater resilience in industry are among the major problems that many developing countries and other countries in transition have to address. An important component in strengthening an economy's restructuring and modernization capacity is the development of domestic consultancy and other key industrial services.

### II.2 Objective

To enhance the rehabilitation of industry by conducting diagnostic analyses, as well as policy and institutional support at the subsectoral and sectoral (national) levels.

### II.3 Subprogramme focus

Policies, institutional infrastructure, and current production structures at both the subsectoral and sectoral (national) levels that constitute the economic environment and competitive framework for industrial enterprises.

#### II.4 Outputs

- (a) Analytical country reports on the industrial sector's overall competitiveness and policy framework, especially within the context of global trends, identifying subsectors in need of rehabilitation;
- (b) Analyses of industrial subsector development prospects and proposals for structural adjustment programmes;
- (c) Programmes for building up domestic industrial services for industrial rehabilitation including consultancy and financing;
- (d) Guidelines on industrial standardization, quality control, technology development and environmental protection;
- (e) Training programmes designed to upgrade skills in industrial services;
- (f) Analyses of domestic human resource development capacities for rehabilitation.

#### II.5 Activities

- (a) Based on international experience and information, conducting industrial structure and policy analyses in individual countries, encompassing the infrastructural and institutional framework, industrial competitiveness and performance and identifying critical rehabilitation needs. On that basis, formulating programmes for industrial policy reform and institutional measures in support of industrial rehabilitation and modernization;
- (b) Analysing selected industrial subsectors in terms of their prospects and constraints and their specific needs for restructuring and rehabilitation, particularly in the light of threats emerging in the wake of changes in global markets;
- (c) Assessing current capabilities of domestic industrial services for rehabilitation, in particular in terms of management and engineering consultancy, financing, market research and information-gathering and evaluations, and elaborating proposals for enhancing such services;
- (d) Implementing technical advisory projects in requesting countries to assist in establishing and applying industrial standards, facilities and guidelines for quality control, technology acquisition and environmental protection;
- (e) Designing, developing and implementing training programmes in various categories of industrial services;
- (f) Assessing domestic capabilities including coverage, specialization and cost-efficiency of human resource development for industrial rehabilitation and modernization on the basis of existing and dynamic comparative advantages.

#### Subprogramme III: Promotion of direct investment and mobilization of financial resources for training and other key inputs to the industrial rehabilitation and modernization process

##### III.1 Problem to be addressed

In their efforts to revitalize their industries, many countries seek resources through international cooperation in such areas as foreign direct investment, technology acquisition, management services and skills upgrading. Such resources and the financing of the services required need to be mobilized from both official sources and private entities at the regional and international levels.

##### III.2 Objective

To enhance international cooperation in the rehabilitation of industrial enterprises in the recipient countries through the promotion of investment, technology transfer and human resource development.

##### III.3 Subprogramme focus

The focus is on industrial enterprises with identified potential benefiting from international programmes of cooperation in investment promotion, technology transfer and human resource development, and also on the appropriate conduits for channelling financial resources to enterprises being rehabilitated.

##### III.4 Outputs

- (a) Joint ventures, technology agreements, management contracts, market-sharing agreements and other forms of enterprise-to-enterprise cooperation;
- (b) Multilateral and bilateral financial support for rehabilitation;
- (c) Acquisition of plant and equipment for rehabilitation of industrial enterprises;
- (d) Upgraded skills in management, technical production and supervisory functions, industrial design, marketing and other key internal or external enterprise services.

##### III.5 Activities

- (a) Assessing prospects for international enterprise-to-enterprise cooperation and actively promoting and supporting such cooperation for the rehabilitation and/or modernization of industries (*inter alia*, through the Investment Promotion Services of UNIDO and the Organization's technology promotion activities);
- (b) On the basis of specific proposals for rehabilitating industrial enterprises, assisting in the mobilization of international finance in the form of grants or concessional credits;

(c) Advising on and assisting in the procurement and commissioning of plant and equipment for the rehabilitation of industrial enterprises;

(d) On the basis of needs assessments, designing, developing, implementing and/or supporting training programmes at the enterprise level in corporate and financial management, critical functions in plant operation and maintenance, in particular quality control and industrial design, marketing and purchasing, and other aspects relating to the rehabilitation and sustained development of industry.

#### V. IMPLEMENTATION ARRANGEMENTS

19. Given the range of activities that make up industrial restructuring and enterprise revitalization, the approach adopted by UNIDO in its technical cooperation activities has to be multidisciplinary in nature and implemented via a team approach in order to gain the full benefits of UNIDO's accumulated experience and the in-house expertise available. In addition, the UNIDO programme has to address industrial decision makers at various levels: enterprise, subsector and government policy-making. The direct involvement of national decision makers and the establishment of local services thus become essential dimensions of the rehabilitation programme, as does the interlinkage with the related programmes of other international agencies and financial institutions.

20. To that end, an interdepartmental working group has been established. The working group, which comprises in-house technical cooperation staff active in the focal areas of the UNIDO programme, will coordinate, monitor, adjust and re-conceptualize, as appropriate, the UNIDO rehabilitation programme, particularly in the context of an eventual restructuring of the Organization, to maximize synergies and avoid duplication. The working group will also maintain contacts, to the extent possible, with the programmes of other agencies to develop cooperation and promote collaborative ventures.

21. A major precondition for building up the UNIDO rehabilitation programme is the availability of adequate financial resources through United Nations sources such as the United Nations Development Programme, self-financing trust funds from individual enterprises and other resources - for example, the Industrial Development Fund. Also in that regard it may be possible that international financial institutions, private entities and commercial banks would avail themselves of UNIDO's services.

#### VI. ACTION REQUIRED OF THE BOARD

22. The Board may wish to recommend to the General Conference for approval the proposed framework for a UNIDO programme on industrial rehabilitation and modernization as outlined in paragraphs 15 to 18 of the present document.



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#### PRIORITY AREAS IN THE MEDIUM-TERM PLAN, 1992-1997: INDUSTRIAL REHABILITATION

##### Revised UNIDO programme for industrial rehabilitation and modernization

Submitted by the Director-General

#### Summary

Proposes a revised UNIDO programme for rehabilitation and modernization that includes the aspect of privatization and ensures that the main thrust is geared towards the developing countries, as requested in Board decision IDB.11/Dec.2.

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#### Introduction

1. The present report is submitted in response to Board decision IDB.9/Dec.2 which requested the Director-General to submit to the policy-making organs of UNIDO, for their consideration, UNIDO's substantive programme on industrial rehabilitation in order to complete the programming exercise of the medium-term plan, 1992-1997, on its five priority areas (human resource development, development and transfer of technology, industrial rehabilitation, small- and medium-scale industries, and environment and energy). The

report is also submitted in response to Board decision IDB.11/Dec.2 that subsequently requested the Director-General to further elaborate his proposed policy framework for the UNIDO programme for industrial rehabilitation and modernization with a view to: (i) assuring that the main thrust of the policy framework is geared to the industrialization objectives of developing countries; (ii) including an additional subprogramme concerning privatization, in particular in the developing countries, in the field of industrial restructuring ... The mandate for the proposed rehabilitation programme also stems from United Nations General Assembly resolutions 45/196 and 46/146 on industrial development cooperation and the diversification and modernization of productive activities in developing countries.

#### I. BACKGROUND

2. In the 1990s, industrial rehabilitation and modernization - although more urgent in certain regions such as Africa - is a global requirement of deep concern both to Governments and the private sector of developing countries and those countries in transition. Whether due to war, famine, the failure of economic and political institutions, or mounting competitive pressures and/or the unprecedented challenges of transition from a command economy to a market-based one, the economic viability of many industrial enterprises is seriously jeopardized by their inability to respond to those pressures and challenges. This is due, among other things, to the lack of a conducive policy environment, lack of managerial and technical capabilities, and serious

shortcomings in the supporting institutions and physical infrastructure. Individual enterprises often lack not only the financial and managerial resources but also the information and/or access to properly functioning financial markets to respond in an expeditious manner.

3. The original investment project was often based on unrealistic assumptions of domestic demand growth, availability of local raw material export prospects and price and supply developments. In many instances, investments were made on the basis of project concepts that were technologically too complex to be sustained over the long term without significant foreign assistance. Also, factor prices, product and market focus, and the external environment - legal, fiscal - that were prevalent and considered favourable at the time the project was planned and implemented, will have frequently changed. Insufficient support in the form of training, other forms of industrial human resource development and auxiliary inputs also tended to drastically affect productivity. Often the critical role of management, which must have a strategic outlook for the future and upon which the efficient use of resources depends, was overlooked. In addition, macroeconomic and industrial policies, including trade and pricing policies, distorted product markets and production conditions in many countries.

4. Furthermore, the prevailing balance-of-payments crises in many developing countries have meant that their industries, which are generally highly import dependent, have been hard hit by interruptions to supplies of raw materials, replacement parts, components and other essential imported inputs. This has led to significant underutilization of production capacities and a precipitous drop in enterprise performance. In addition, the globalization of production, the movement towards trading blocs, rapid technological advances and a widespread move towards deregulation, liberalization, decentralization and privatization has meant that many developing countries are being forced to either restructure their industries or face the prospects of divestiture or liquidation. Moreover, investment rates in developing countries have fallen sharply. For example, in a sample of 30 developing countries, average total investment increased from 18 per cent of gross domestic product (GDP) in the early 1970s to a peak of 23 per cent in the period 1978 to 1982, and then declined to 18.5 per cent of GDP from 1985 to 1987. 1/

5. Public investment levels, which still play a significant role in many developing countries, have also fallen significantly. The share of public investment as a percentage of GDP has declined from approximately 10 per cent in 1980 to 8.3 per cent in 1987. 2/ The economies in transition have also experienced a significant fall in public investment levels in recent years and the level of foreign direct investment (FDI) is not yet significant in the region. Although figures for FDI are far from certain - especially for Eastern Europe - in 1992, Malaysia attracted \$3.85 billion in FDI from France, Japan and the United States of America, over two and a half

times the level of FDI in Hungary, the country that received almost half of all FDI to Eastern Europe excluding the former Soviet Union.

6. To kick-start economic growth, many countries will need to improve productivity and raise the overall level of investment. To this end, a growing number of countries have initiated policies to increase the level of aggregate savings. But these measures will only begin to take effect in the medium to long term. In the interim period, industrial rehabilitation in the form of more efficient utilization of existing installed productive capacities and improved productivity would be the most economical means of restoring dynamism, competitiveness and profitability to the industrial sector and overall economic growth in many countries.

7. To be successful, industrial rehabilitation must be a dynamic, forward-looking concept. The concept should be broadened beyond merely thinking in terms of benefits to individual plants - rather, it should be interpreted as securing optimal use of existing capacities and resources, through upgrading and transformation, for future general industrial growth. Industrial rehabilitation encompasses the notion of a minimum critical mass or configuration of assets, be they physical, financial or human, for efficient profitable production. 3/ For example, a ceramics factory needs as a minimum requirement: clay, a mould, a kiln, a delivery vehicle, plant buildings and skilled workers. If any one of these assets are damaged or unavailable for whatever reason, production is reduced or stopped. Under normal circumstances, maintenance and repair is scheduled and budgeted and down-times are thereby kept to a minimum, and the enterprise therefore has self-upkeep capability. What distinguishes an enterprise that is in need of rehabilitation from one that does not, is that the former suffers a prolonged failure of its self-upkeep capability so that the minimum critical mass or configuration of assets is not maintained. This can occur for many reasons, among others loss of markets or insufficient revenue - often a lack of foreign exchange - inappropriate policies, general political and economic uncertainties, or as a result of damages and losses due to war or natural disasters, especially earthquakes.

8. The concept of industrial rehabilitation should also encompass the possibility of plant closure either in entirety or in part. In such cases it is recognized that there are important social and political implications to be considered. The established interpretation of the concept of rehabilitation may block such actions because it restricts the view of decision makers to the existing industrial structure. A wider and more forward-looking regeneration concept will help all parties concerned to understand that closure may be a necessary part of an attempt to establish an industrial structure with better prospects for sustained competitiveness. Rehabilitation should thus avoid re-establishing previous conditions for inefficient production and instead establish a new basis for viable production and overall growth.

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3/ M. Jaffey and M. Tribe, Project rehabilitation in adverse environments, Avebury Publishing Ltd., Avebury, 1992.

9. Industrial rehabilitation activities cover the entire range of technical, technological, managerial, marketing, financial and industrial human resource development and training issues, as well as overall structural and policy issues at the branch, subsector, sector and macroeconomic levels. Also important in this regard are environmental considerations, energy efficiency and the employment consequences of rehabilitation. As the approach covers a wide range of issues, successful implementation requires the expeditious mobilization of financial resources from domestic entities, both public and private, and from foreign multilateral, bilateral, commercial and financial bodies. Thus, although the relevant UNIDO subprogrammes focus on assistance to individual or groups of industrial enterprises, they also provide advisory services on policy and institutional reforms and the mobilization of financial and other resources for the rehabilitation and modernization process.

10. First and foremost, actual rehabilitation presupposes a detailed diagnosis of the enterprise(s) concerned and a cost-benefit analysis of eventual rehabilitation measures in the context of a consistent, coherent and phased rehabilitation programme. Secondly, industrial rehabilitation refers to the various technical, managerial, organizational and financial measures that need to be undertaken at the enterprise level to acquire or regain a self-upkeep capability that ensures a critical mass of assets and thereby enables the enterprise to survive as a viable entity in competitive markets. Industrial restructuring and the build-up of competitiveness calls for a dynamic development process within a country's economy, facilitating the entry as well as the exit of individual enterprises and creating conditions in which, if the situation so demands, ailing companies can be shut down, non-performing assets liquidated and resources freed for new investments. Thirdly, rehabilitation should be seen to encompass improvements in the economic policy and institutional environment of an enterprise or an entire industrial subsector as preconditions for successful enterprise-level restructuring. Fourthly, rehabilitation should include privatization as an element of the overall restructuring process. Thus an integral part of successful rehabilitation is the integration of macro-industrial policy actions with enterprise-level and institutional and other supporting measures. Of necessity, such actions and measures would touch upon industrial financing, building up efficient industrial services and, in general, strengthening the overall industrial competitiveness of a country's economy.

11. Privatization is a major instrument of the restructuring process. Indeed, it has become a key component and motivating force of structural economic reforms and adjustment policies in the developing countries. While there are a variety of ways to improve the efficiency of state-owned enterprises by exposing them to competitive market pressures, privatization is often seen as the best way to ensure market discipline and instil the efficiency and dynamism into the industrial sector that has been lacking. However, there is no universal blueprint for privatization. Rather, it is an instrument that should be tailored to the specific circumstances of individual countries and the specific rehabilitation needs of the subsectors and industries concerned.

12. Revitalizing industrial enterprises will require restructuring and privatizing many existing enterprises, whether they are large or

small. Experience in developing regions has shown that restructuring/rehabilitation and privatization are often linked. In some cases successful rehabilitation requires widespread privatization. State-owned enterprises can operate efficiently in economies where most enterprises are privately owned. But where most enterprises are state-owned and a competitive market system does not exist or is in its infancy, the incentives for efficient behaviour are often not strong enough.

13. However, it is important to point out that privatization is not the panacea of all ills. In a significant number of countries privatization has yet to achieve the desired results. Among other things, this has occurred because privatization has not been properly incorporated into the broader framework of industrial restructuring and overall private sector development. Also, in many developing countries, privatization will require far more than the simple transfer of state-owned property to private entrepreneurs. Successful privatization is not merely change of ownership. The ultimate goal of privatization should be increased competition and efficiency. To ensure that there are long-term efficiency gains to an economy following privatization, it is important that past monopolistic privileges are not simply transferred to new owners. This will generally require the development of a competitive market environment with supporting institutions and infrastructure: the promotion of new businesses and entrepreneurship, and the creation of an appropriate and stable legal framework conducive to such activity. The large-scale redundancies that may result from rehabilitation and/or privatization are key considerations that also must be addressed. Small- and medium-scale industries - new and existing - may need to be promoted more vigorously to provide an outlet for redundant workers and a major source of job creation, supplies of essential inputs and services for large-scale enterprises, and the achievement of international competitiveness and attraction of FDI.

14. Privatization in the context of rehabilitation and restructuring raises a thorny question: Should privatization precede rehabilitation or vice versa? There is no universally applicable answer to this question and the answer will depend on the country, its stage of development and the subsector or industry concerned, and most importantly, the individual enterprise in question. In many cases, some intervention will be required prior to privatization, if only to prepare enterprises for the process or keep them going long enough for a private investor to be found. In some cases, financial restructuring will be required in order to make an otherwise viable enterprise attractive to private investment. Many enterprises would be viable were it not for heavy debt-servicing requirements. It is important, therefore, not to be misled by current debt structures and losses as they can bear little relation to future performance. In countries where industries are highly vertically integrated, large monopolistic enterprises often will need to be split up, and horizontal specialization pursued prior to privatization. It is considerably more difficult to de-monopolize or split up large enterprises and introduce required internal structural changes after privatization than before it. (In splitting up large enterprises into smaller units, however, it is important that the new units are of a sufficient size to be competitive. In some countries, enterprises have been split into operational units that are too small to be viable in the face of international

competition.) On the other hand, there may be equally valid situations in which restructuring should not precede privatization. For example, private buyers may be able to be found without restructuring, and in some cases private buyers (especially foreign buyers) will have their own strategies and plans and may find that new equipment purchased and processes installed in a prior restructuring will be inappropriate for their uses and thus be of no value to them.

15. Contrary to popular perception, privatization and development of the private sector does not imply the abdication of Government in industrial development. On the contrary, privatization in the context of restructuring requires Government to play a strong and ongoing leadership role in developing a conducive environment for private sector development and also in providing essential pre- and post-privatization support. In some cases, Governments may need to develop the strategic framework to guide and prioritize the rehabilitation and privatization process. In particular, Government might be called upon to assess the industrial base and identify those enterprises to be privatized, those to be restructured and those to be liquidated, and in which order the process may be required. Governments also have a critical role to play in attracting FDI to support privatization and rehabilitation. Barriers to market entry will need to be removed and exit, where appropriate, will need to be facilitated by developing - among other things - appropriate bankruptcy laws. Foreign trade also may need to be opened. Governments also may be required to be involved in identifying the specific restructuring needs of state-owned enterprises - especially large scale enterprises - or in catalysing enterprises and external assistance to identify these needs. For this identification process, specific industrial sector and subsector analyses and strategies may need to be developed. Among other things, institutional support in the form of the development of an efficient banking and financial sector, training for government staff and private entrepreneurs in valuation techniques, the preparation and evaluation of business plans, market analyses and enterprise audits will often be essential. Training to encourage labour mobility, skills upgrading, knowledge of modern business practice and the setting up of small- and medium-scale industries and entrepreneurship development in general also will be required. At the post-privatization stage, government support, particularly training programmes and institutional support, will continue to be needed by the newly privatized enterprises. Model restructuring and other training mechanisms may have to be undertaken. Government support in the form of activities such as investment promotion forums and centralized "one-stop" offices will also be needed to attract further FDI.

16. The privatization process itself will be ongoing and will need to be monitored and re-conceptualized, where necessary. Agreements made with private investors will need to be monitored for compliance, especially in terms of employment and investment guarantees. Government and government agencies may have to impose penalties and legal proceedings for non-compliance of private sector guarantees. It is often the case that privatization has failed or not lived up to expectations because Governments have not fully understood their pivotal support and catalytic roles in the post-privatization state.

17. In many developing countries, energy and material consumption are higher than international

norms, even for the given level of technology due to inefficient management, lack of conservation awareness and neglect of plant and equipment. Environmental pollution caused by ailing enterprises also has become a major issue. Many of these enterprises are characterized by a general lack of awareness of environmental considerations and neglect of environmental controls, as well as the existence of outmoded, highly-polluting technologies and a dependence on low-grade energy sources. A lack of air and water emission controls is particularly problematic and, in many developing countries, has resulted in damage to both health and physical capital. In many countries, the natural resource base is threatened.

18. The challenge for the developing countries is to take advantage of the industrial restructuring process to improve the use of the environment and energy to ensure that the technical upgrading and renewal of industry promotes clean and energy-efficient technologies. While rehabilitation and general subsector restructuring will often force enterprises to adopt such processes, this should not be taken for granted; clear and comprehensive standards should be formulated, adopted and enforced. Since privatization and foreign investment are slated to play important roles in the industrial restructuring of many developing countries, it also is very important that clear rules assigning liability, especially for past damage, are adopted. Unclear liability for past environmental damage and uncertainty over the future direction of legislation will deter private investment, especially FDI.

19. The expansion of the industrial sector as a means of accelerated economic growth has become a prominent feature of industrial policy pronouncements in developing countries. Development objectives are aimed at achieving, among other things, competitive performance in terms of cost structure, technological choices and product mix, productivity, profitability and efficiency. Increased competitive conditions call for efficient utilization of inputs through rehabilitation and modernization. In response, UNIDO has traditionally accorded high priority to industrial rehabilitation and modernization. Continuous emphasis over the years has been placed on developing a comprehensive integrated programme and approach that reflects the real needs and aspirations of developing countries. In this regard, the programme has addressed problems at the enterprise level within subsectoral, sectoral and macroeconomic contexts, mobilizing the involvement and joint implementation of many organizational units of UNIDO. Considerable attention has been devoted to the modernization of management structures, upgrading technology and facilitating technological absorption through appropriate management approaches and organizational schemes and emphasizing the acquisition of clean technologies, increasing energy efficiency and instilling increased environmental awareness. Thus, many of UNIDO's large-scale projects have dealt with the upgrading and modernization of production and management capabilities. Attention has also focused on issues of plant performance - including pollution reduction and energy efficiency and conservation and managerial improvement - such as repair and maintenance and preventive maintenance schemes as well as on computer-aided management, information systems and accountancy training. Many UNIDO projects have stressed turn-around management and modernization with assistance in strategic diagnostics, turn-around work plans and the development of viable business plans. Increased

involvement of local industrial consultancy services in rehabilitation activities is desirable to many developing countries and the UNIDO rehabilitation programme has emphasized the development of local skills, particularly the improvement of national consultancy capabilities.

20. In the framework of the programme for the Industrial Development Decade for Africa, special emphasis in UNIDO's rehabilitation work has been given to the rehabilitation needs of the African manufacturing industry. Assistance has included a series of diagnostic surveys of selected African countries; enterprise audits to develop bankable rehabilitation plans; a variety of direct assistance measures; studies on the impact of the debt problem on African industry; and specific management and human resource development in such areas as economic and financial analysis and marketing. Given the importance of these subsectors, particular attention also has been paid to agro-industries and skins, leather and leather products.

21. Since 1990, the UNIDO rehabilitation programme has given increased emphasis to the commercialization of industry, direct assistance to the private sector, and the transfer of commercially dedicated management techniques such as design for manufacture, total quality control, manufacturing resource planning, group technology and value engineering. In addition, the rehabilitation programme has been refocused in light of recent global, political and economic changes that have led to the need for substantial assistance in restructuring and privatizing state-owned industry. To this end, UNIDO has provided policy, institutional and enterprise-level support to a number of countries including Albania, Bhutan, Cyprus, Ecuador, Ethiopia, Guyana, Malaysia, Papua New Guinea, Peru, Poland, Sudan, Turkey and Uzbekistan. This assistance has ranged from undertaking studies and research in support of privatization, conducting expert group

meetings and workshops on privatization, forming networks on privatization to disseminate information and experiences of privatization, providing subsector specialists and training in privatization techniques and supporting requirements, preparation of business plans, and assistance for specific enterprise privatizations. There has also been renewed emphasis on the rationalization of manufacturing operations, energy efficiency, adoption of cleaner technologies and the development of commercially viable business plans to enable enterprises to successfully face the existing and emerging challenges of the transition to market-based competitive economies.

22. Recently, the programme has launched an innovative approach - exemplified by a successful major restructuring project in Poland funded by the United Kingdom of Great Britain and Northern Ireland Know-How Fund - in response to the current sweeping changes in the global economy. In this approach, UNIDO offers an integrated programme of assistance to: (a) address immediate restructuring issues and help enterprises remain operational in the short run; (b) develop viable business plans and upgrade managerial and technical capabilities to assist and implement rehabilitation/business plans; and (c) to attract joint venture partners.

## II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME

23. The development objective of the proposed programme is to enhance the economic and technical performance and viability of industrial enterprises, thereby increasing their competitive strength and regenerating industrial growth in the recipient countries.

## III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME

24. The priorities of the programme and respective target groups are:

| Priority                                                                                                                                                                                                                                                                                                                                                                                                           | Target groups                                                                                                                                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Strengthening national capabilities in order to identify, assess, formulate and implement programmes and policies that meet local rehabilitation and modernization requirements at the industrial enterprise and sectoral levels                                                                                                                                                                               | Industry (public, private individual enterprises), legislative and planning organs in Governments of recipient countries, industry sector or subsectoral associations, training and research institutions, industrial services entities |
| (b) Support to countries in designing and implementing appropriate industrial policy measures at the enterprise, subsectoral and sectoral (national) levels and in drawing up appropriate financial, economic and technical packages for rehabilitating, privatizing and modernizing their industries and industrial enterprises                                                                                   | As above                                                                                                                                                                                                                                |
| (c) Provision of coordinated international support to implement the rehabilitation of enterprises, drawing on engineering, design and other technical services (including areas as diverse as quality control, packaging and maintenance, cleaner and energy-efficient technologies), management development, investment analyses, industrial human resource development, and negotiation and procurement services | As above                                                                                                                                                                                                                                |
| (d) Promotion of the mobilization of financial resources for industrial rehabilitation and modernization                                                                                                                                                                                                                                                                                                           | In addition to all the above, development finance institutions in both developing and developed countries                                                                                                                               |

25. The guiding principle governing the rehabilitation programme of UNIDO is the pursuance of an integrated, multidisciplinary approach - involving all three substantive major programmes in UNIDO: Industrial Operations, Programme and Project Development and Industrial Promotion, Consultations and Technology - in close cooperation with the local actors and other relevant international agencies such as the World Bank and the regional development banks.

#### IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

26. The proposed UNIDO rehabilitation programme addresses the above priorities (a) to (d) and its subprogrammes relate to the following:

Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability (as in the Agro-Based, Chemical, Metallurgical, and Engineering Industries as well as Industrial Strategies and Policies, Institutional Infrastructure, and Industrial Management and Rehabilitation - all of which fall under the major programme, Industrial Operations).

Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation and modernization (carried out mainly within the subprogramme of the major programme, Programme and Project Development: Global Issues and Policy Analysis, Regional and Country Studies, Industrial Statistics and Sectoral Surveys).

Subprogramme III: Promotion of direct investment and mobilization of financial resources for the industrial rehabilitation and modernization process (undertaken within the subprogrammes of all three major programmes such as Industrial Cooperation and Funds Mobilization; Industrial Investment; and Industrial Institutions and Services as well as Industrial Operations Support).

Subprogramme IV: Advisory services and assistance in the context of restructuring, rehabilitation, modernization and privatization of industrial enterprises (carried out mainly under the major programme Industrial Operations by Industrial Strategies and Policies, Institutional Infrastructure, Industrial Management and Rehabilitation as well as the technology subprogrammes) and in cooperation with the major programme, Programme and Project Development.

##### Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability

#### I.1 Problem to be addressed

In many developing countries and countries with economies in transition, changes in external and internal economic conditions and emergent challenges to established industrial production structures have led to a drastically deteriorating performance of some industrial enterprises - in many cases, key enterprises. This has resulted in low capacity utilization and a growing risk of widespread financial collapse because of the linkages of key enterprises. In some instances, economic parameters and market developments as perceived at the investment stage have subsequently proved to be invalid; in other

instances, drastic deregulation, disarmament or privatization programmes have forced industries to restructure completely or close down. In certain cases, the inability to coordinate and plan production and resource use in an efficient manner - arising from management shortfalls - have led to a gradual decline in enterprise profitability and economic viability. Whereas some companies cannot be salvaged and have to be liquidated, many can be revitalized through the provision of appropriate assistance and investment resources. For example, in many instances rehabilitation efforts might focus on overhauling machinery and other installations and reassessing production programmes, current capacities and technologies employed. In relatively small industrial enterprises where funds are scarce, a "repair-or-replace" exercise can be conducted for each machine or piece of equipment to determine exactly the financial outlay involved. A growing concern of many countries is the environmental pollution caused by ailing enterprises. Rehabilitation, the general subsector restructuring process, and pricing energy supplies at world market levels will often force enterprises to adopt environmentally cleaner technologies and processes. As has been UNIDO's experience in many cases, individual enterprises can do much by their own efforts towards rehabilitation. For example, in a food-processing enterprise in Zambia, UNIDO found that by simply improving process flows and reorganization of management responsibilities - issues that could be undertaken by the enterprise itself - led to a 20 per cent increase in efficiency. In other cases, enterprises require policy and institutional support from Government, industry associations, including from international sources (GC.5/14, paras. 5.124-5.134).

In many cases, enterprises need major injections of capital - especially working capital - technology transfers and technological know-how, managerial upgrading, training and other resources. These additional resources for rehabilitation are often sought from domestic and international sources. But whatever the source of these additional resources, they should be provided on an economic basis according to established market principles and not as a grant, in order not to distort market conditions and to ensure the proper commercial scrutiny of operations by the enterprise itself. In the ultimate analysis, through the revitalization and modernization of selected (key) industrial enterprises, industrial growth and employment can be generated and the dynamism of the industrial sector restored.

#### I.2 Objective

To improve the overall economic and technical performance of individual industrial enterprises through specific rehabilitation and modernization efforts and thus lay a solid basis for profitability, competitiveness and environmentally sustainable production.

#### I.3 Subprogramme focus

Oriented towards industrial enterprises with important employment and structural linkages that offer significant growth prospects.

#### I.4 Outputs

(a) Diagnostic reports at the enterprise level analysing, *inter alia*, the financial

performance, value of assets, managerial and organization systems, productivity, product quality, skill profiles, marketing, input and product mix, technology profile, production and quality control processes, environmental impact and energy consumption;

(b) Rehabilitation proposals covering, *inter alia*, internal restructuring and modernization programmes, raw material requirements, investment, product development, clean technology acquisitions, upgrading of skills and market research;

(c) Feasibility analyses of investment proposals;

(d) Industrial enterprises rehabilitated through comprehensive assistance programmes.

### I.5 Activities

(a) Carrying out detailed performance and resource diagnoses of selected industrial enterprises in terms of financial, technological, technical, organizational, marketing and other factors affecting the competitiveness and viability of enterprises;

(b) Designing packages of rehabilitation measures for specific enterprises, including investment projects;

(c) Evaluating the profitability of investments and identifying other resources required for the rehabilitation of enterprises;

(d) Assisting in the improvement of various aspects of enterprise management and plant operation, including market research and marketing, financial control and accounting, and management information systems, as well as engineering, product development, repair and maintenance and quality control.

### Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation and modernization

#### II.1 Problem to be addressed

Declining performance and eventual bankruptcy of some industrial enterprises are inherent features of a dynamic competitive industrial development process in a country. However, such developments can also be an indication of inadequate economic or industrial policies and other shortcomings in the economic environment or the result of sudden changes in key parameters - such as the abrupt loss of input and output markets, increases in the prices of previously subsidized energy inputs to world market levels - particularly in international markets. Introducing new industrial policy measures, drawing up special structural adjustment programmes at the sectoral and subsectoral levels and building up greater resilience in industry, and developing environmental policies and standards are among the major problems that many developing countries have to address. An important component in strengthening an economy's restructuring and modernization capacity is the development of domestic consultancy and other key industrial services.

#### II.2 Objective

To enhance the rehabilitation of industry by conducting diagnostic analyses, as well as policy and institutional support at the subsectoral and sectoral (national) levels.

#### II.3 Subprogramme focus

Policies, institutional infrastructure, and current production structures at both the subsectoral and sectoral (national) levels that constitute the economic environment and competitive framework for industrial enterprises.

#### II.4 Outputs

(a) Analytical country reports on the industrial sector's overall competitiveness and policy framework, especially within the context of global trends, identifying subsectors in need of rehabilitation;

(b) Analyses of industrial subsector development prospects and proposals for structural adjustment programmes;

(c) Programmes for building up domestic industrial services for industrial rehabilitation including consultancy and financing;

(d) Guidelines on industrial standardization, quality control, technology development and environmental protection;

(e) Training programmes designed to upgrade skills in industrial services;

(f) Analyses of domestic human resource development capacities for rehabilitation.

#### II.5 Activities

(a) Based on international experience and information, conducting industrial structure and policy analyses in individual countries, encompassing the infrastructural and institutional framework, industrial competitiveness and performance and identifying critical rehabilitation needs. On that basis, formulating programmes for industrial policy reform and institutional measures in support of industrial rehabilitation and modernization;

(b) Analysing selected industrial subsectors in terms of their prospects and constraints and their specific needs for restructuring and rehabilitation, particularly in the light of threats emerging in the wake of changes in global markets;

(c) Assessing current capabilities of domestic industrial services for rehabilitation, in particular in terms of management and engineering consultancy, financing, market research and information-gathering and evaluations, and elaborating proposals for enhancing such services;

(d) Implementing technical advisory projects in requesting countries to assist in establishing and applying industrial standards, facilities and guidelines for quality control, technology acquisition and environmental protection;

(e) Designing, developing and implementing training programmes in various categories of industrial services;

(f) Assessing domestic capabilities including coverage, specialization and cost efficiency of human resource development for industrial rehabilitation and modernization on the basis of existing and dynamic comparative advantages.

Subprogramme III: Promotion of direct investment and mobilization of financial resources for training and other key inputs to the industrial rehabilitation and modernization process

III.1 Problem to be addressed

In their efforts to revitalize their industries, many countries seek resources through international cooperation in such areas as foreign direct investment, technology acquisition, management services and skills upgrading. Such resources and the financing of the services required need to be mobilized from both official sources and private entities at the regional and international levels.

III.2 Objective

To enhance international cooperation in the rehabilitation of industrial enterprises in the recipient countries through the promotion of investment, technology transfer and human resource development.

III.3 Subprogramme focus

The focus is on industrial enterprises with identified potential benefiting from international programmes of cooperation in investment promotion, technology transfer and human resource development, and also on the appropriate conduits for channelling financial resources to enterprises being rehabilitated.

III.4 Outputs

(a) Joint ventures, technology agreements, management contracts, market-sharing agreements and other forms of enterprise-to-enterprise cooperation;

(b) Multilateral and bilateral financial support for rehabilitation;

(c) Acquisition of plant and equipment for rehabilitation of industrial enterprises;

(d) Upgraded skills in management, technical production and supervisory functions, industrial design, marketing and other key internal or external enterprise services.

III.5 Activities

(a) Assessing prospects for international enterprise-to-enterprise cooperation and actively promoting and supporting such cooperation for the rehabilitation and/or modernization of industries (*inter alia*, through the Investment Promotion Service Offices of UNIDO and the Organization's technology promotion activities);

(b) On the basis of specific proposals for rehabilitating industrial enterprises, assisting

in the mobilization of international finance in the form of grants or concessional credits;

(c) Advising on and assisting in the procurement and commissioning of plant and equipment for the rehabilitation of industrial enterprises;

(d) On the basis of needs assessments, designing, developing, implementing and/or supporting training programmes at the enterprise level in corporate and financial management, critical functions in plant operation and maintenance, in particular quality control and industrial design, marketing and purchasing, and other aspects relating to the rehabilitation and sustained development of industry.

Subprogramme IV: Advisory services and assistance in the context of restructuring, rehabilitation, modernization and privatization of industrial enterprises

IV.1 Problem to be addressed

A major concern in developing countries in the early stages of privatization will be interventions to rehabilitate subsectors of industry and major industrial enterprises. This will include (a) pre-privatization activities at subsectoral and enterprise levels to provide direction to the restructuring process, and prepare enterprises for privatization, as well as (b) privatization and post-privatization support to enterprises, linking them to the range of support services needed (for example, extension services, networks of information, associations/federations, local consulting groups) for them to maintain or acquire viability.

IV.2 Objective

To enhance the industrial restructuring and privatization processes in a given country by providing rehabilitation services at the subsectoral and enterprise levels.

IV.3 Subprogramme focus

Policies, institutional infrastructure, and production structures at the subsectoral levels that constitute the economic environment and institutional framework for given industrial enterprises; pre-privatization restructuring activities to ascertain the commercial viability of the enterprise, assess core assets, valuation, spinning off non-core operations at the enterprise level; and pre-privatization intervention to restructure enterprises that will not be attractive to private investors in their current state. Subprogramme IV will build on the analytical framework of subprogramme II to include restructuring guidance in the pre-privatization process, and integrate activities of subprogramme I for attainment of viability in the immediate post-privatization phase.

IV.4 Outputs

Pre-privatization:

(a) Analysis of industrial subsector development prospects and constraints;

(b) Measures to support the environment for privatization;

(c) Stocktaking exercises in terms of subsectoral capacities such as key industries, legal and organizational readiness, involved and affected parties, down-sizing and spin-off potentials;

(d) Guidance on rehabilitation measures for improved operation, prior to privatization proper;

Privatization and post-privatization:

(e) Technical cooperation for provision of integrated technical and industry-related support services to newly privatized industrial enterprises;

(f) Analyses and feedback on bottlenecks in the enabling environment and institutional framework for initiation of corrective action;

(g) Diagnostic studies to assess enterprise viability, identify core assets, obtain realistic valuation and identify restructuring work necessary to revitalize the company;

(h) Training and capacity-building programmes to strengthen the institutional framework;

(i) Training programmes designed to upgrade skills in industry.

IV.5 Activities

In the pre-privatization period:

(a) Providing assistance to develop policies that will guide privatization in the context of national industrial restructuring and assisting in the preparation of a privatization strategy and work plan;

(b) Developing a strategic framework to guide and prioritize the rehabilitation and privatization process, in particular, in developing criteria to enable decisions on which enterprises to privatize and/or rehabilitate and which to liquidate;

(c) Assisting in the formulation of comprehensive environmental and energy policies to ensure direct awareness of environmental considerations and energy conservation needs;

(d) Providing training at the institutional level to enable government staff to undertake the functions required to oversee the privatization process, the reform of the administrative machinery of Government, and the provision of external advisers for specialized areas;

(e) Carrying out diagnostic analyses at the enterprise level to prepare inventories of large-scale public or state-owned enterprises selected for privatization and for assessment and cost-benefit analysis;

(f) At the enterprise level, preparing techno-economic assessments and cost-benefit analyses of the potential viability of enterprises, training enterprise directors and managers, preparing valuations, audits and restructuring plans;

(g) Organizing investment promotion forums that play a role in providing foreign capital

inflows for successful privatization as well as programmes for the development of entrepreneurship and small- and medium-scale industry programmes;

(h) Assisting in the development of privatization networks to increase the flow of information and share experience among privatization policy makers and those responsible for implementing the process;

In the privatization and post-privatization periods:

(i) Providing assistance to Governments that support newly privatized enterprises in overall financial restructuring, staff reductions and relocations, and assisting in the identification of potential markets and production enhancement needs;

(j) Assisting in initiating and facilitating enterprise access to support services and institutions such as information networks, extension services and business federations/associations;

(k) Providing support to ongoing and initiating new training programmes, such as technical skills upgrading and market-based business management;

(l) Conducting pilot restructuring of key enterprises to be used as a model for restructuring in similar industries/enterprises;

(m) Supporting FDI promotion activities such as investment forums and the development of centralized investment offices;

(n) Providing specific post-privatization assistance to individual enterprises such as training and development of restructuring strategies, and environmentally sound and energy-efficient technology choice.

V. IMPLEMENTATION ARRANGEMENTS

27. Given the range of activities that make up industrial restructuring and enterprise revitalization, the approach adopted by UNIDO in its technical cooperation activities has to be multidisciplinary in nature and implemented via a team approach in order to gain the full benefits of UNIDO's accumulated experience and the in-house expertise available. In addition, the UNIDO programme has to address industrial decision makers at various levels: enterprise, subsector and government policy-making. The direct involvement of national decision makers and the establishment of local services thus become essential dimensions of the rehabilitation programme, as does the interlinkage with the related programmes of other international agencies and financial institutions.

28. To that end, an interdepartmental working group has been established. The working group, which comprises in-house technical cooperation staff active in the focal areas of the UNIDO programme, will coordinate, monitor, adjust and re-conceptualize, as appropriate, the UNIDO rehabilitation programme, particularly in the context of an eventual restructuring of the Organization, to maximize synergies and avoid duplication. The working group will also maintain

contacts, to the extent possible, with the programmes of other agencies to develop cooperation and promote collaborative ventures.

29. A major precondition for building up the UNIDO rehabilitation programme is the availability of adequate financial resources through United Nations sources such as the United Nations Development Programme, self-financing trust funds from individual enterprises and other resources - for example, the Industrial Development Fund as well as the UNIDO Investment Promotion Offices and

investment forums. Also in that regard it may be possible that international financial institutions, private entities and commercial banks would avail themselves of UNIDO's services.

#### VI. ACTION REQUIRED OF THE CONFERENCE

30. The Board may wish to recommend to the General Conference for approval the proposed framework for a UNIDO programme on industrial rehabilitation and modernization as outlined in paragraphs 23 to 26 of the present document.



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## United Nations Industrial Development Organization

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### GENERAL CONFERENCE

Fifth session  
Yaoundé, 6-10 December 1993  
Item 3 of the provisional agenda

#### PROVISIONAL AGENDA

1. Opening of the fifth session.
2. Election of officers:
  - (a) Election of the President;
  - (b) Election of other officers.
3. Adoption of the agenda.
4. Organization of work.
5. Credentials of representatives in the Conference.
6. Elections to organs:
  - (a) Industrial Development Board;
  - (b) Programme and Budget Committee.
7. Annual reports of the Director-General on the activities of the Organization for 1991 and 1992.
8. Priority areas in the medium-term plan, 1992-1997:
  - (a) Human resource development;
  - (b) Development and transfer of technology;
  - (c) Industrial rehabilitation;
  - (d) Small- and medium-scale industries;
  - (e) Environment, energy and sustainable industrial development, including follow-up to the United Nations Conference on Environment and Development.
9. Common elements in the medium-term plan, 1992-1997:
  - (a) Mobilization of financial resources for industrial development, including:
    - (i) Industrial investment promotion;
    - (ii) Industrial Development Fund;
    - (iii) Guidelines for special trust fund projects; <sup>a/</sup>
  - (b) Economic and technical cooperation among developing countries;
  - (c) Integration of women in industrial development.
10. The regional dimension:
  - (a) Second Industrial Development Decade for Africa;
  - (b) Special Programme for Industrial Development in the Arab Countries;
  - (c) Special Programme for the Industrial Development of Asia and the Pacific;
  - (d) Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean;
  - (e) Industrialization of the least developed countries;
  - (f) Technical assistance to the Palestinian people.
11. Policy directives:
  - (a) Policy forums:
    - (i) Reports of the Industrial Development Board on the work of its fourth special session, ninth, tenth and eleventh regular sessions;
    - (ii) System of Consultations;
  - (b) Studies and research:
    - (i) New concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution;

<sup>a/</sup> Item included in compliance with Board decision IDB.11/Dec.31 (c).

- (ii) Evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world;
- (iii) The external debt and industrial development;

(c) Technical cooperation activities of UNIDO (including contribution to international efforts to mitigate the consequences of the Chernobyl accident);

(d) The coordinating role of UNIDO.

12. Policy management:

- (a) Evaluation activities of UNIDO;
- (b) Organizational and staff structure.

13. Programme support:

- (a) Matters related to intergovernmental, non-governmental, governmental and other organizations;
- (b) Headquarters agreement between UNIDO and the Republic of Austria;

(c) Personnel matters:

(i) United Nations Joint Staff Pension Fund;

(ii) Women in the Secretariat;

(d) Financial matters:

(i) Scale of assessments of Member States;

(ii) Financial situation of UNIDO;

(iii) Financial regulations;

(iv) Working Capital Fund;

(v) Appointment of External Auditor;

(e) Computerization programme.

14. Medium-term plan, 1994-1999.

15. Programme and budgets, 1994-1995.

16. Date and place of the sixth session.

17. Closure of the fifth session.



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## United Nations Industrial Development Organization

ORIGINAL: ENGLISH

### GENERAL CONFERENCE

Fifth session  
Yaoundé, 6-10 December 1993  
Item 3 of the provisional agenda

#### PROVISIONAL AGENDA

1. Opening of the fifth session.
2. Election of officers:
  - (a) Election of the President;
  - (b) Election of other officers.
3. Adoption of the agenda.
4. Organization of work.
5. Credentials of representatives in the Conference.
6. Elections to organs:
  - (a) Industrial Development Board;
  - (b) Programme and Budget Committee.
7. Annual reports of the Director-General on the activities of the Organization for 1991 and 1992.
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  - (b) Development and transfer of technology;
  - (c) Industrial rehabilitation;
  - (d) Small- and medium-scale industries;
  - (e) Environment, energy and sustainable industrial development, including follow-up to the United Nations Conference on Environment and Development.
9. Common elements in the medium-term plan, 1992-1997:
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    - (iv) The external debt and industrial development;
  - (b) Economic and technical cooperation among developing countries;
  - (c) Integration of women in industrial development.
10. The regional dimension:
  - (a) Second Industrial Development Decade for Africa;
  - (b) Special Programme for Industrial Development in the Arab Countries;
  - (c) Special Programme for the Industrial Development of Asia and the Pacific;
  - (d) Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean;
  - (e) Industrialization of the least developed countries;
  - (f) Technical assistance to the Palestinian people.
11. The future policy framework of UNIDO and its organizational structure:
  - (a) Studies and research:
    - (i) New concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution;
    - (ii) Evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world;
  - (b) The coordinating role of UNIDO;
  - (c) Technical cooperation activities of UNIDO (including contribution to international efforts to mitigate the consequences of the Chernobyl accident);
  - (d) Organizational and staff structure;
  - (e) Medium-term plan, 1994-1999.

12. Policy forums:
  - (a) Reports of the Industrial Development Board on the work of its fourth and fifth special sessions, ninth, tenth and eleventh regular sessions;
  - (b) System of Consultations.
13. Policy management: Evaluation activities of UNIDO.
14. Programme support:
  - (a) Matters related to intergovernmental, non-governmental, governmental and other organizations;
  - (b) Headquarters agreement between UNIDO and the Republic of Austria;
  - (c) Personnel matters:
    - (i) United Nations Joint Staff Pension Fund;
    - (ii) Women in the Secretariat;
  - (d) Financial matters:
    - (i) Scale of assessments of Member States;
    - (ii) Financial situation of UNIDO;
    - (iii) Financial regulations;
    - (iv) Working Capital Fund;
    - (v) Appointment of External Auditor;
  - (e) Computerization programme.
15. Programme and budgets, 1994-1995.
16. Date and place of the sixth session.
17. Closure of the fifth session.



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## United Nations Industrial Development Organization

ORIGINAL: ENGLISH

### GENERAL CONFERENCE

Fifth session  
Yaoundé, 6-10 December 1993  
Item 3 of the provisional agenda

#### ANNOTATED PROVISIONAL AGENDA

##### Item 1. Opening of the fifth session

In accordance with rule 34 of the rules of procedure of the General Conference Mr. Leopoldo López Cossío (Bolivia), President of the fourth session, will open the fifth session of the General Conference.

##### Item 2. Election of officers a/

At each regular session the Conference shall, with due regard for equitable geographical representation, elect, from among the representatives of Members, the following officers: a President and nine Vice-Presidents, as well as a Chairman for each Main Committee (rule 35). The officers elected shall constitute the General Committee.

##### (a) Election of the President

In accordance with rule 35 and appendix A of the rules of procedure, the President of the fifth session should be elected from the States in List B of Annex I to the Constitution.

##### (b) Election of other officers

The nine Vice-Presidents shall be elected so as to ensure the representative character of the General Committee (rule 35.3). Should the Conference decide to establish Main Committees (see item 4 below), the Conference shall also elect a Chairman for each Main Committee.

##### Item 3. Adoption of the agenda

In accordance with Article 9.4 (g) of the Constitution, the Industrial Development Board at its eleventh session adopted the provisional

a/ To ensure equitable geographical distribution in the election of officers and the elections to organs, account has to be taken of the latest list of States to be included in Annex I to the Constitution, which are contained in document IDB.11/29. As explained in paragraph 2 of that document, before proceeding to the elections, the General Conference will have to decide in which of the lists of States (A, B, C or D) a number of new Member States are to be included.

agenda for the fifth session of the General Conference as reflected in decisions IDB.10/Dec.19 and IDB.11/Dec.34 and circulated on 16 August 1993 under the symbol GC.5/13. The provisional agenda was subsequently revised (rule 20) at the resumed eleventh session of the Board, to be submitted to the Conference for approval as contained in document GC.5/13/Rev.1.

##### Item 4. Organization of work

The General Committee shall propose to the Conference the establishment of Main Committees and of any other sessional bodies of the Conference. It shall propose to the Conference the allocation of items between the plenary meetings, the Main Committees and any other sessional bodies (rule 42). At its eleventh session, the Board recommended that the Conference establish a Main Committee to which items 7 to 15 of the provisional agenda would be referred for a more focused debate aimed at the preparation of consensus draft decisions and resolutions for submission to the plenary (decision IDB.11/Dec.34).

At its resumed eleventh session, the Board in its decision IDB.11/Dec.41 also recommended that the general debate should focus in particular on the theme "Industrial development in the changing global situation and the future policy framework of UNIDO".

When considering the organization of work, it should be kept in mind that the budget for the Conference in the programme and budgets of UNIDO, 1992-1993 (GC.4/42), provides only for ten plenary meetings, five main committee meetings and five geographical group meetings.

##### Item 5. Credentials of representatives in the Conference

As stipulated in Article 8.1 of the Constitution of UNIDO, the Conference shall consist of representatives of all Members of the Organization. Membership in the Organization is defined in Article 3 of the Constitution. In accordance with rule 27 of the rules of procedure of the Conference, the credentials of representatives and the names and titles of the other persons constituting the Member's delegation shall be submitted to the Director-General if possible not less than one week before the opening of the session which the delegation will attend. Any

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later change in the composition of the delegation also shall be submitted to the Director-General. The credentials of representatives shall be issued either by the Head of State or Government or by the Minister for Foreign Affairs of the Member concerned. A Permanent Representative to the Organization does not require special credentials if his/her letter of accreditation to the Organization specifies that he/she is authorized to represent his/her Government at sessions of the Conference, it being understood that this does not preclude that Government from accrediting another person as its representative by means of special credentials.

A Credentials Committee of nine members shall be appointed at the beginning of the Conference on the proposal of the President. Its composition shall be based on that of the Credentials Committee of the United Nations General Assembly at its forty-eighth session which is as follows: Austria, Bahamas, China, Côte d'Ivoire, Ecuador, Mauritius, Russian Federation, Thailand and United States of America. The Committee shall examine the credentials of representatives and report without delay to the Conference which shall decide any question arising (rule 28).

Item 6. Election to organs a/

(a) Industrial Development Board

In accordance with Article 9.1 of the Constitution, the Industrial Development Board shall consist of 53 Members of the Organization elected by the Conference, which shall give due regard to the principle of equitable geographical distribution. In electing the members of the Board, the Conference shall observe the following distribution of seats: 33 members of the Board shall be elected from the States listed in Parts A and C, 15 from the States listed in Part B, and 5 from the States listed in Part D of Annex I to the Constitution.

In accordance with Article 9.2 of the Constitution, "members of the Board shall hold office from the close of the regular session of the Conference at which they were elected until the close of the regular session of the Conference four years thereafter ... Members of the Board may be re-elected."

At present, the Board is composed of the following States: Austria\*, Belarus\*\*, Belgium\*\*, Bolivia\*\*, Brazil\*\*, Cameroon\*\*, Chile\*\*, China\*\*, Costa Rica\*, Cuba\*, Egypt\*, Ethiopia\*\*, Finland\*\*, France\*\*, Germany\*\*, Ghana\*\*, Greece\*, Guinea\*\*, Hungary\*, India\*, Indonesia\*, Iran, Islamic Republic of\*, Iraq\*, Italy\*\*, Japan\*\*, Kuwait\*\*, Mexico\*, Morocco\*, Netherlands\*, Nigeria\*, Norway\*\*, Pakistan\*\*, Peru\*, Republic of Korea\*\*, Romania\*\*, Russian Federation\*, Saudi Arabia\*, Senegal\*, Slovakia\*\*, Spain\*, Sudan\*, Switzerland\*, Syrian Arab Republic\*, Thailand\*\*, Trinidad and Tobago\*, Tunisia\*\*, Turkey\*, Uganda\*, United Kingdom of Great Britain and Northern Ireland\*\*, United States of America\*\*, Venezuela\*\*, Zaire\*, Zimbabwe\*\*.

\* Term of office expires at the close of the fifth regular session of the General Conference in 1993.

\*\* Term of office expires at the close of the sixth regular session of the General Conference in 1995.

(b) Programme and Budget Committee

In accordance with Article 10.1 of the Constitution, the Programme and Budget Committee shall consist of 27 Members of the Organization elected by the Conference, which shall give due regard to the principle of equitable geographical distribution. In electing the members of the Committee, the Conference shall observe the following distribution of seats: 15 members of the Committee shall be elected from the States listed in Parts A and C, 9 from the States listed in Part B, and 3 from the States listed in Part D of Annex I to the Constitution.

In accordance with Article 10.2, "members of the Committee shall hold office from the close of the regular session of the Conference at which they were elected until the close of the regular session of the Conference two years thereafter. Members of the Committee may be re-elected."

At its fourth session, the Conference elected the following States to hold office until the close of the fifth regular session of the Conference in December 1993: Algeria, Austria, Brazil, Bulgaria, China, Colombia, Cuba, Egypt, France, Germany, India, Italy, Japan, Kenya, Malawi, Mexico, Netherlands, Nigeria, Philippines, Poland, Qatar, Russian Federation, Rwanda, Sweden, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. b/

Other stipulations concerning the election of the members of the Industrial Development Board and the Programme and Budget Committee are contained in rule 102 of the rules of procedure of the General Conference.

Item 7. Annual reports of the Director-General on the activities of the Organization for 1991 and 1992

In accordance with rule 13.1 (b), the provisional agenda for each regular session of the Conference shall include the annual reports of the Director-General on the activities of the Organization. The Conference will have before it the annual reports of UNIDO for 1991 and 1992 (IDB.9/10 and Corr.1; IDB.11/10), which were submitted to the Board at its ninth and eleventh sessions. These reports reflect the provisions of Conference resolution GC.4/Res.2 in which the Director-General was requested to fully incorporate in future annual reports the programme performance report according to Board decision IDB.7/Dec.11, and to continue including therein the tabular presentation of significant performance indicators and the comparison of outputs implemented against outputs planned for the period covered by the annual report. Concerning these two annual reports, the Board adopted decisions IDB.9/Dec.4 and IDB.11/Dec.5.

The Conference will have before it:

- Annual Report of UNIDO, 1991 (IDB.9/10 and Corr.1)
- Annual Report of UNIDO, 1992 (IDB.11/10)

b/ Concerning Yugoslavia, see resolution GC/S.1/Res.1 adopted by the General Conference at its first special session.

Item 8. Priority areas in the medium-term plan, 1992-1997

(a) Human resource development

The Conference in its resolution GC.4/Res.15 requested the Director-General to take a number of actions aimed at enhancing the human resource development activities of UNIDO, and to report on their implementation to the Board at its tenth session. The Board, in turn, decided to give UNIDO human resource development activities further consideration at its eleventh session, taking also into account the results of the ongoing in-depth evaluation of the subject, with a view to agreeing on substantive instructions for the UNIDO Secretariat on the matter. A summary of the in-depth evaluation was made available to the Board at its eleventh session.

In its decision IDB.11/Dec.3, the Board urged the Director-General to coordinate the various human resource development-related activities and programmes in industrial development sectors on the basis of an integrated thematic approach, to be based on the three main themes suggested by the evaluation report, namely: employment and manpower development, science and technology and social issues. It also requested the Director-General to continue to improve the programme in coordination and close cooperation with other United Nations organs and to give human resource development activities further consideration in his review of the programmes and structure of UNIDO, taking full account of the recommendations of the in-depth evaluation on the subject.

(b) Development and transfer of technology

The Conference at its fourth session adopted resolution GC.4/Res.13 in which it requested the Director-General: to undertake a number of actions aimed at promoting and facilitating the development and transfer of technology for developing countries; to continue to implement and enhance the programme contained in document IDB.3/26; and to report to the Conference at its fifth session through the Board at its eleventh session on the implementation of the resolution.

Having considered that report (GC.5/10, chap. XIV), the Board in its decision IDB.11/Dec.20 requested the Director-General to promote certain options in the implementation of UNIDO activities on development and transfer of technology, including the increase of technology flow to developing countries under most favoured conditions including environmentally friendly technologies; the development and use of indigenous scientific and technical capacity through training; and the implementation of an efficient technological management in developing countries. The Board also requested the Director-General to continue his efforts to monitor and evaluate new and emerging technologies that might be beneficial to the developing countries, and to examine constraints in the access to and transfer of technology to developing countries, with a view to identifying remedies to them through cooperation with other relevant organizations.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Development and transfer of technology (GC.5/10, chap. XIV)

(c) Industrial rehabilitation

In its decision IDB.9/Dec.2, the Board requested the Director-General to submit to the policy-making organs of UNIDO, for their consideration, the substantive programme on industrial rehabilitation, in order to complete the programming exercise of the medium-term plan, 1992-1997, on its five priority areas no later than at the eleventh session of the Board. Such a programme (GC.5/12) was submitted to the Board at its eleventh session. On that occasion, the Board in its decision IDB.11/Dec.2 requested the Director-General to further elaborate his proposed policy framework for the UNIDO programme for industrial rehabilitation and modernization with a view to (a) assuring that the main thrust of the policy framework is geared to the industrialization objectives of developing countries and (b) including an additional subprogramme concerning privatization, in particular in the developing countries, in the field of industrial restructuring along the lines of paragraphs 24 to 30 of the document, taking due account of the activities of other United Nations agencies in the area of privatization. The Board also invited the Director-General to identify and mobilize financial resources accordingly, and to submit to the Conference his policy framework for the revised UNIDO programme on the subject.

The Conference will have before it:

- Revised UNIDO programme for industrial rehabilitation and modernization. Submitted by the Director-General (GC.5/12/Rev.1)

(d) Small- and medium-scale industries

In its decision IDB.9/Dec.2, the Board requested the Director-General to submit to the policy-making organs of UNIDO, for their consideration, the substantive programme on small- and medium-scale industries, in order to complete the programming exercise of the medium-term plan, 1992-1997, on its five priority areas no later than at the eleventh session of the Board. On that occasion, the Board in decision IDB.11/Dec.2 took note of the policy framework proposed by the Director-General for the UNIDO programme on small- and medium-scale industries (GC.5/11, paras. 13-17) and requested the Director-General to submit it to the Conference at its fifth session.

The Conference will have before it:

- UNIDO programme for small- and medium-scale industries. Submitted by the Director-General (GC.5/11)

(e) Environment, energy and sustainable industrial development, including follow-up to the United Nations Conference on Environment and Development

At its fourth session, the Conference in resolution GC.4/Res.18, inter alia, invited the Director-General to submit to the Board at its tenth session an update of the UNIDO environment programme, taking into consideration the recommendations and guidelines of the United Nations Conference on Environment and Development, the views expressed by the General Conference of UNIDO at its fourth session, as well as the results and recommendations of the UNIDO Conference on Ecologically Sustainable Industrial Development.

In its decision IDB.10/Dec.13, the Board took note of the report of the Director-General containing an updated UNIDO environment programme (IDB.10/17) and requested the Director-General to again update that programme in the light of further developments related to Agenda 21, and to report on UNIDO activities on sustainable development and its implementation of Agenda 21 to the Board and subsequently to the Conference at its fifth session. The latest report on the subject (GC.5/10, chap. XII) was considered by the Board at its eleventh session when it adopted decision IDB.11/Dec.18. Among a number of actions called for by the Board in that decision, the Director-General was requested to engage the Organization in supporting the implementation of Agenda 21, especially in areas such as integrating environment and development in decision-making, protection of the atmosphere, environmentally sound management of biotechnology as well as strengthening the role of business and industry, transfer of environmentally sound technology and chemical safety. The Board also requested the Director-General to engage UNIDO in global efforts to protect the ozone layer in accordance with the Montreal Protocol; to initiate negotiations with developed countries to increase environmentally-friendly technology flow to developing countries; and to implement decision IDB.11/Dec.18 within authorized regular budget resources and by mobilization of additional extrabudgetary resources, as described in chapter XII of document GC.5/10.

Concerning energy, in its decision IDB.10/Dec.2 the Board requested the Director-General to undertake a number of actions and to report to the eleventh session of the Board on the progress made in the implementation of the decision. Subsequently in its decision IDB.11/Dec.6, the Board, having considered that report (GC.5/10, chap. I), encouraged the Director-General to further pursue the full implementation of the earlier decision in order to strengthen the energy capacity of developing countries with due regard to environmental aspects.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Activities in the field of energy. UNIDO environment programme, including follow-up to the United Nations Conference on Environment and Development (GC.5/10, chaps. I and XII)

Item 9. Common elements in the medium-term plan, 1992-1997

(a) Mobilization of financial resources for industrial development

At its fourth session, the Conference in resolution GC.4/Res.21 addressed a number of requests to the Director-General aimed at pursuing and reinforcing his activities concerning the mandate of resolution GC.2/Res.10, including the presentation to the Board at its tenth session of a progress report on the implementation of the actions called for by the Conference. At its tenth session, the Board adopted decision IDB.10/Dec.15 in which it took note of the progress report of the Director-General (GC.5/6) and requested him to adopt a number of measures and to present to the Conference at its fifth session a detailed progress report on their implementation.

The Conference will have before it:

- Mobilization of financial resources for industrial development and external debt and industrial development. Progress report by the Director-General (GC.5/6 and Add.1)

(a) (i) Industrial investment promotion

In its resolution GC.4/Res.17, the Conference requested a number of actions from the Director-General related to industrial investment promotion as well as the submission of a report on the implementation of the resolution to the Conference at its fifth session through the Board at its eleventh session. Having considered that report (GC.5/10, chap. XV) the Board in its decision IDB.11/Dec.21 requested further actions by the Director-General aimed at enhancing the efficiency, effectiveness and impact of the industrial investment programme.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Investment promotion (GC.5/10, chap. XV)

(a) (ii) Industrial Development Fund

In its decision GC.4/Dec.21, paragraph (e), the Conference encouraged the Director-General to pursue the development of the programme approach described in document GC.4/28 in order to enhance the impact of UNIDO assistance and requested the Secretariat to promote selected programmes following the medium-term plan priority areas, and urged Member States to provide adequate financial resources for the development and implementation of such programmes. In that same decision (para. (f)), the Conference encouraged the Director-General to continue utilizing Industrial Development Fund resources as a means for the mobilization of larger financial flows, both for technical cooperation and investment, and recommended the improvement of investment-related activities.

Information on the activities of the Fund is included in the annual reports of UNIDO for 1991 and 1992 (IDB.9/10, chap. VIII, paras. 14-20; IDB.11/10, chap. III, paras. 129-137 and chap. VIII, paras. 20-26). Decisions of the Board concerning the programmes for 1992 and 1993 and the proposed programming thrust for 1993, 1994 and 1995 are contained in the reports of the Board on its tenth and eleventh sessions (GC.5/3 and GC.5/4).

Concerning pledges of contributions to the Fund for 1994 and future years, these could be communicated to the Secretariat in writing prior to the fifth session of the Conference. Pledge forms for that purpose were attached to a letter dated 14 October 1993 addressed by the Director-General to the Ministers of Foreign Affairs of all Member States of UNIDO. Alternatively, pledges may be announced by Member States during the consideration of this item. The pledges made in writing prior to the Conference would be acknowledged by the President of the Conference during the plenary discussion of this item.

(a) (iii) Special trust funds

In its resolution GC.4/Res.28, while approving the guidelines for the development, appraisal, approval, implementation and evaluation

of special trust fund projects (GC.4/36), the General Conference, *inter alia*, requested the Director-General to prepare some additions to those guidelines (see para. 2 of the resolution) for submission to the Board at its tenth session. These additions were submitted in document IDB.10/15 and further revised in document IDB.11/19. The Board, at its eleventh session, in its decision IDB.11/Dec.31 took note of Director-General's Bulletin UNIDO/DG/B.73/Rev.2, which incorporates the amendments proposed in paragraphs 3 (a), (b) and (c) of document IDB.11/19 and recommended to the General Conference the approval of the additions to the guidelines proposed in paragraphs 11 (a) and (b) of document IDB.10/15 in the context of the amendments to Director-General's Bulletin UNIDO/DG/B.73/Rev.2.

The Conference will have before it:

- Guidelines for special trust fund projects. Reports by the Director-General (IDB.10/15; IDB.11/19)
- Board decision IDB.11/Dec.31 concerning additions to the guidelines for special trust fund projects

(a) (iv) The external debt and industrial development

At its fourth session, the Conference in resolution GC.4/Res.22 requested the Director-General to take a number of actions aimed at contributing to the alleviation of the debt burden of the developing countries, and report on their implementation to the Conference at its fifth session through the Board at its tenth session. The progress report of the Director-General submitted to the tenth session of the Board, which includes reporting on UNIDO activities aimed at the mobilization of financial resources for industrial development (see item 9 (a) above) is contained in document GC.5/6. The Board, in its decision IDB.10/Dec.16, urged the Director-General to take a number of steps aimed at the alleviation of the external debt of the developing countries and to present to the Conference at its fifth session a progress report on their implementation.

The Conference will have before it:

- Mobilization of financial resources for industrial development and the external debt and industrial development. Progress report by the Director-General (GC.5/6 and Add.1)

(b) Economic and technical cooperation among developing countries

The Conference in its resolution GC.4/Res.11 approved the proposed framework for the UNIDO-wide programme for economic and technical cooperation among developing countries (ECDC/TCDC) contained in paragraph 12 of document GC.4/7 and addressed a number of requests to the Director-General, including the presentation of a report on the implementation of the resolution to the Conference at its fifth session. Such a report (GC.5/10, chap. X) was also presented to the Board at its eleventh session. On that occasion, the Board in its decision IDB.11/Dec.16 requested the Director-General to strengthen the programme for ECDC/TCDC and to identify and exploit its potential more fully in order to achieve more tangible results as well as to seek information from developing countries regarding their needs/

capacities in the field of industrial development with a view to identifying and promoting specific ECDC/TCDC activities and opportunities.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Economic and technical cooperation among developing countries (GC.5/10, chap. X)

(c) Integration of women in industrial development

The Conference at its fourth session adopted resolution GC.4/Res.12 in which it urged the further implementation of the UNIDO programme for the integration of women in industrial development, 1990-1995. In that context the Conference requested the Director-General to undertake a number of measures and to report on the progress of the implementation of the resolution to the Conference at its fifth session through the Board. Such a report (GC.5/10, chap. XI) was considered by the Board at its eleventh session. The Board in its decision IDB.11/Dec.17 stressed the importance of the consideration of women in the context of UNIDO's response to sustainable development, including poverty alleviation, as called for in Agenda 21 and requested the Director-General to continue implementing the programme, in particular to intensify UNIDO's efforts to consider gender issues as a cross-sectoral substantive theme in its operational and research activities, and to contribute to the preparations for the Fourth World Conference on Women: Action for Equality, Development and Peace, to be held at Beijing, China, in 1995, by highlighting issues relating to women in industrial development.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Integration of women in industrial development (GC.5/10, chap. XI)

Item 10. The regional dimension

(a) Second Industrial Development Decade for Africa

The Conference at its fourth session, in resolution GC.4/Res.8, decided to adopt the programme for the Second Industrial Development Decade for Africa (IDDA) and requested the Director-General to take a number of measures related to the implementation of the programme. It also requested the Director-General, in cooperation with the Executive Secretary of the Economic Commission for Africa (ECA) and the Secretary-General of the Organization of African Unity (OAU), to undertake follow-up actions for promoting national, subregional and regional activities in support of the programme and jointly submit a report on its implementation to the Conference at its fifth session through the Board. The Board at its eleventh session considered the latest progress report of the Director-General on the subject (GC.5/10, chap. III) and in its decision IDB.11/Dec.9 called upon the Director-General as well as the African countries and its development partners to carry out a number of measures with regard to the programme for the Second IDDA.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Second

Industrial Development Decade for Africa  
(GC.5/10, chap. III)

- Industry in Africa: challenge and response. Prepared by the UNIDO Secretariat (GC.5/18)
- Progress report on the implementation of the programme for the Second Industrial Development Decade for Africa. Submitted by the Secretariats of ECA, OAU and UNIDO (GC.5/25)

The following documents will also be made available to the Conference:

- Report of the eleventh meeting of the Conference of African Ministers of Industry, Port Louis, Mauritius, 31 May - 3 June 1993 (CAMI.11/13) c/
- Report of the Meeting of the Intergovernmental Committee of Experts of the Whole on Industrialization in Africa, Port Louis, Mauritius, 24-29 May 1993 (ICE/1993/14) c/

(b) Special Programme for Industrial Development in the Arab Countries

At its fourth session the Conference in resolution GC.4/Res.5, paragraph 3, listed the priorities for the activities of the Programme and addressed a number of requests to the Director-General including the submission of a report on the implementation of that resolution to the Conference at its fifth session through the Board at its tenth session. The Board considered progress reports on the subject (GC.5/5 and GC.5/10, chap. VI) both at its tenth and eleventh sessions. In decision IDB.11/Dec.12 the Board presented further requests to the Director-General aimed at promoting industrial development in the Arab countries.

The Conference will have before it:

- Special Programme for Industrial Development in the Arab Countries. Progress report of the Director-General (GC.5/5)
- Progress report on specific activities, submitted by the Director-General. Special programme for industrial development in the Arab countries (GC.5/10 chap. VI)

(c) Special Programme for the Industrial Development of Asia and the Pacific

At its fourth session, the Conference took note appreciatively of the report on the implementation of the Programme and requested the Director-General to take a number of actions in that respect (decision GC.4/Dec.12). The latest progress report on the subject (GC.5/10, chap. IV) was considered by the Board at its eleventh session. In its decision IDB.11/Dec.10 the Board addressed a number of requests to the Director-General aimed at further promoting the Programme.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Special Programme for the Industrial Development of Asia and the Pacific (GC.5/10, chap. IV)
- (d) Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean

At its fourth session, the Conference (resolution GC.4/Res.6), while appreciating the efforts of the Secretariat in launching the Regional Programme, requested the Director-General to undertake a number of measures and to submit a detailed report on their implementation to the Board at its tenth session. The latest progress reports on the subject (IDB.10/18; GC.5/10, chap. V) were considered by the Board at its eleventh session. In its decision IDB.11/Dec.11 the Board presented further requests to the Director-General in support of the Programme.

The Conference will have before it:

- Progress report on specific activities. Submitted by the Director-General. Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean (GC.5/10, chap. V; IDB.10/18, chap. V)

(e) Industrialization of the least developed countries

The Conference at its fourth session adopted two resolutions related to the least developed countries. In resolution GC.4/Res.10, the Conference adopted the industrial action programme for the least developed countries (PI/114). In resolution GC.4/Res.9, the Conference called upon the Director-General to continue to accord highest priority to the least developed countries in programmes of the Organization in order to assist in the implementation of the Paris Declaration and the Programme of Action of the Second United Nations Conference on the Least Developed Countries and, within that context, to develop and strengthen key priority sectors in the medium-term plan of UNIDO. The Director-General was also requested to report on the implementation of that resolution to the Conference at its fifth session.

The Board at its eleventh session (decision IDB.11/Dec.13) called for a number of actions including requests to the Director-General to pay particular attention to the subject in the current reform exercise and to continue to accord highest priority to the least developed countries in the programme of the Organization and to report on the implementation of Conference resolutions GC.4/Res.9 and GC.4/Res.10 to the fifth session of the General Conference.

UNIDO is organizing the second ministerial symposium on the industrialization of the least developed countries which will be held, parallel to the General Conference, at Yaoundé from 3 to 10 December 1993. Any recommendations that may emanate from the symposium will be brought to the attention of the Conference.

The Conference will have before it:

- Industrialization of the least developed countries. Report by the Director-General (GC.5/17)

c/ Document available in Arabic, English and French.

(f) Technical assistance to the Palestinian people

In its resolution GC.4/Res.7, the Conference requested the Director-General to increase UNIDO assistance to the Palestinian people in close cooperation with the Palestine Liberation Organization and to report to the Conference at its fifth session. In a review of the subject at its eleventh session, the Board addressed a number of requests to the Director-General (decision IDB.11/Dec.14), including a report to the Conference at its fifth session on the progress made in implementing that decision.

The Conference will have before it:

- Technical assistance to the Palestinian people. Report by the Director-General (GC.5/16)

Item 11. The future policy framework of UNIDO and its organizational structure

(a) Studies and research

(a) (i) New concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution

In its resolution GC.4/Res.19 the Conference took note with appreciation of the new concepts and approaches for cooperation in respect to industrial development contained in paragraphs 38 to 43 of the progress report of the Director-General on the subject (GC.4/17), and emphasized the aspects requiring particular attention in formulating those new concepts and approaches for industrial cooperation. The Conference also directed the Board to review the application of the approved new concepts and approaches, through a report of the Director-General and, in the light of its assessments, to consider any further new ones which may be necessary for submission to the Conference at its fifth session.

A report on the subject (IDB.11/13) was considered by the Board at its eleventh session in conjunction with the UNIDO future policy framework and relative priorities in the medium-term plan 1994-1999 (IDB.11/27, IDB.11/28). The Board, in its decision IDB.11/Dec.4, took note of the report of the Director-General on new concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution (IDB.11/13), together with other relevant reports. (See also sub-item (a)(ii) below.)

The Conference will have before it:

- International economic change and the industrial development of developing countries. Prepared by the Secretariat (GC.5/15)
- Executive summary of Industry and Development: Global Report 1993/1994. Prepared by the Secretariat (GC.5/20)

(a) (ii) Evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world

In its decisions IDB.6/Dec.23 and IDB.8/Dec.34, the Board raised a number of concerns related to the subject of this item, and referred them to

the Conference at its fourth session. On that occasion the Conference considered a report by the Director-General (GC.4/18) and adopted resolution GC.4/Res.20. The resolution requested the Director-General, inter alia, to ensure that the activities of UNIDO are consistent with the efforts of developing countries to ensure their active participation in the world economy, and to report on the concrete steps he had taken in that regard, through the Board, to the Conference at its fifth session. The report of the Director-General is contained in document GC.5/7, which was considered by the Board at its tenth session (the debate that took place at that session on the subject is reflected in summary record IDB.10/SR.6, paragraphs 48 to 120). Since the preparation of that report, the Board at its eleventh session adopted decision IDB.11/Dec.4 in which it took note of the report by the Director-General on the status of drawing up a future policy framework of UNIDO in accordance with medium-term plan priority areas and resource projections (IDB.11/27), the report of the President of the tenth session of the Board on the relative priorities within the context of the medium-term plan, 1994-1999 (IDB.11/28), the positions of Member States and regional groups on the same matter, and the report of the Director-General on new concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution (IDB.11/13). The Board requested the Director-General to submit his proposals on the future policy framework of UNIDO in conjunction with the submission of his proposals on the organizational and staff structure of the Organization to a resumed eleventh session of the Board convened from 28 to 29 October 1993. The proposals, which are contained in document GC.5/23, were endorsed by the Board which recommended them to the General Conference at its fifth session for consideration and approval (Board decision IDB.11/Dec.40) (see also item 15 below).

The Conference will have before it:

- Priorities and structural reform of UNIDO. Proposals by the Director-General (GC.5/23)
- Board decision IDB.11/Dec.40 on the future policy framework of UNIDO and its organizational and staff structure
- International economic change and the industrial development of developing countries. Prepared by the Secretariat (GC.5/15)
- Executive summary of Industry and Development: Global Report 1993/1994. Prepared by the Secretariat (GC.5/20)

(b) The coordinating role of UNIDO

Article 2 (b) of the Constitution stipulates that, in fulfilment of its objectives, the Organization shall, in accordance with the Charter of the United Nations, initiate, coordinate and follow up the activities of the United Nations system with a view to enabling the Organization to play the central coordinating role in the field of industrial development. The Conference may wish to discuss that role of UNIDO in the light of United Nations General Assembly resolution 47/153 on industrial development cooperation. The documents referred to under item 11 (a)(ii) above will be of relevance to the subject.

(c) Technical cooperation activities of UNIDO (including contribution to international efforts to mitigate the consequences of the Chernobyl accident)

At its fourth session, the Conference, in resolution GC.4/Res.3 and decision GC.4/Dec.11, requested the Director-General to take a number of actions related to technical cooperation and to report on their implementation to the Conference at its fifth session, through the Board at its ninth session. The latest progress report on the subject (GC.5/10, chap. II) was reviewed by the Board at its eleventh session. In its decision IDB.11/Dec.8 the Board requested the Director-General to continue implementing previous decisions and resolutions and continue improving the quality of technical cooperation projects.

In its resolution GC.4/Res.1 the Conference requested the Director-General to continue, within the mandate of UNIDO, to take appropriate measures on the implementation of United Nations General Assembly resolution 45/190 on international cooperation to address and mitigate the consequences of the accident at the Chernobyl nuclear power plant, in cooperation with the United Nations Coordinator of International Cooperation for Chernobyl. It also requested the Director-General to submit a report on the subject to the General Conference at its fifth session. Such a report (GC.5/9) was reviewed by the Board at its eleventh session. The recommendations of the Board to the General Conference are contained in decision IDB.11/Dec.33.

The Conference will have before it:

- Progress report on specific activities, submitted by the Director-General. Technical cooperation activities (GC.5/10, chap. II)
- Participation of UNIDO in international cooperation to study and mitigate the consequences of the Chernobyl accident. Report by the Director-General (GC.5/9)
- Board decision IDB.11/Dec.33 on participation of UNIDO in international cooperation to study and mitigate the consequences of the Chernobyl accident

(d) Organizational and staff structure

In its decision GC.4/Dec.22, the Conference requested the Board to pursue the examination of the question of the organizational and staff structure of UNIDO with a view to reaching a decision that could be adopted by the Conference at its fifth session. As mentioned under item 11 (a)(ii) above, in its decision IDB.11/Dec.4 the Board requested the Director-General to complete the exercise mentioned in his report on a future policy framework of UNIDO (IDB.11/27) as soon as possible and submit to a resumed eleventh session of the Board (28-29 October 1993) his proposals on that subject in conjunction with the submission of his proposals on the organizational and staff structure of the Organization.

The Conference will have before it:

- Priorities and structural reform of UNIDO. Proposals by the Director-General (GC.5/23)
- Board decision IDB.11/Dec.40 on the future policy framework of UNIDO and its organizational and staff structure

(e) Medium-term plan, 1994-1999

In accordance with Conference decision GC.2/Dec.23, the Director-General submitted to the Board in the first year of the fiscal period 1992-1993, through the PBC, a draft medium-term plan for the six years 1994-1999.

The Board at its tenth session in its decision IDB.10/Dec.7 took note of the draft medium-term plan, 1994-1999, as contained in documents IDB.10/5 and Add.1.

At the same session, in its decision IDB.10/Dec.8, it decided to review at its eleventh session the relative priorities within the medium-term plan activities, 1994-1999, bearing in mind the financial and technical capacity of UNIDO. On that occasion, the Board adopted decision IDB.11/Dec.4 in which it took note of the report of the President of the tenth session of the Board on the relative priorities within the context of the medium-term plan, 1994-1999 (IDB.11/28) and of the positions of Member States and regional groups on the same matter (see also item 11 (a)(ii) above).

The Conference will have before it:

- Draft medium-term plan, 1994-1999. Submitted by the Director-General (IDB.10/5 and Add.1)
- Board decision IDB.10/Dec.7 on the medium-term plan, 1994-1999

Item 12. Policy forums

(a) Reports of the Industrial Development Board on the work of its fourth and fifth special sessions and its ninth, tenth and eleventh regular sessions

In accordance with Article 9.4 (c) of the Constitution, the Board shall report to the Conference at each regular session on the activities of the Board.

Since the closure of the fourth session of the Conference, the Board has held its fourth and fifth special sessions, and its ninth, tenth and eleventh regular sessions. The Conference will have before it the following documents:

- Report of the Board on the work of its fourth special session, 23 November 1991 (GC.5/1)
- Report of the Board on the work of its ninth session, 18-22 May 1992 (GC.5/2)
- Report of the Board on the work of its tenth session, 2-6 November 1992 and 29 March 1993 (GC.5/3 and Add.1)
- Report of the Board on the work of its fifth special session, 22 January 1993 (GC.5/B)
- Report of the Board on the work of its eleventh session, 28 June - 2 July, 28-29 October and 22 November 1993 (GC.5/4, Add.1 and Add.2)

(b) System of Consultations

In its resolution GC.4/Res.16 on the evaluation activities of UNIDO, the Conference requested the Director-General: to ensure the

full implementation of in-depth evaluation recommendations within two years of the completion of an evaluation, and to report on the actions taken thereon; to present, in the framework of in-depth evaluations, UNIDO's action to ensure that its activities have an effective impact on the industrial development of developing countries; and to assess the implementation and impact of the recommendations of the evaluation on the System of Consultations and report on those assessments to the Conference at its fifth session through the Board at its ninth session. Subsequently, the Board in its decision IDB.9/Dec.9 requested the Director-General to undertake a number of additional measures to enhance the System of Consultations and to report on action taken on the decision to the fifth session of the Conference. At its eleventh session, having considered the latest progress report on the subject (GC.5/10, chap. XIII), the Board in its decision IDB.11/Dec.19 requested the Director-General to further seek ways of enhancing the efficiency, effectiveness and the impact of the System of Consultations in the overall process of industrialization of developing countries, and in doing so to pay due regard to the recommendations of the relevant in-depth evaluation.

The Conference will have before it:

- Progress report on specific activities, submitted by the Director-General. System of Consultations (GC.5/10, chap. XIII)

Item 13. Policy management: Evaluation activities of UNIDO

In its resolution GC.4/Res.16 the Conference requested the Director-General to undertake a number of actions related to the evaluation activities of UNIDO, and to report on their implementation at its fifth session. Reporting on some of these actions was submitted to the Board at its ninth and eleventh sessions (cf. IDB.9/14 and GC.5/10, chaps. XIII and XVI), when the Board adopted decisions IDB.9/Dec.9 and IDB.11/Dec.22 on the subject.

As requested in paragraph 5 (c) of resolution GC.4/Res.16, the Director-General will report to the Conference on the implementation of the resolution, in particular, in relation to the arrangements made for the future financing of evaluation activities, including the strengthening of the Evaluation Staff of the Organization, and steps initiated for the undertaking of the in-depth evaluation on special trust fund programmes.

The Conference will have before it:

- Measures to enhance the System of Consultations. Report by the Director-General (IDB.9/14)
- Progress report on specific activities, submitted by the Director-General. Evaluation of UNIDO programmes and activities (GC.5/10, chap. XVI)
- Evaluation activities of UNIDO. Report by the Director-General (GC.5/19)

Item 14. Programme support

- (a) Matters related to intergovernmental, non-governmental, governmental and other organizations

In accordance with rule 13 of the rules of procedure of the Conference, the provisional

agenda for each regular session of the Conference shall include reports from specialized and related agencies and from other intergovernmental organizations with which UNIDO has concluded a relationship agreement pursuant to Article 19.1 (a) of the Constitution, and items proposed by them, where the agreement establishing the relationship with the organization concerned so provides.

Furthermore, in the guidelines for the relationship of UNIDO with intergovernmental, governmental, non-governmental and other organizations adopted by the General Conference at its first session (decision GC.1/Dec.41, annex), it is stipulated that the Director-General shall report to the Conference at each regular session on any agreements with intergovernmental and governmental organizations entered into by him on behalf of the Organization since the preceding regular session as well as on any consultative relations established with non-governmental organizations in the same period.

The Conference will have before it:

- Matters related to intergovernmental, non-governmental, governmental and other organizations. Note by the Director-General (GC.5/21)

- (b) Headquarters agreement between UNIDO and the Republic of Austria

In accordance with Article 20.2 of the Constitution, "the Organization shall conclude a headquarters agreement with the Host Government".

In the following document the Conference will be informed of the latest developments:

- Headquarters agreement between UNIDO and the Republic of Austria. Report by the Director-General (GC.5/24)

- (c) Personnel matters

- (c) (i) United Nations Joint Staff Pension Fund

The Conference will have to take action on the recommendation of the Board (IDB.11/Dec.32) concerning candidates for election to the UNIDO Staff Pension Committee for the biennium 1994-1995. The Conference will also be informed of other issues related to the pension system.

The Conference will have before it:

- Issues related to the pension system. Report by the Director-General (GC.5/22)
- Board decision IDB.11/Dec.32, paragraph (c), on the UNIDO Staff Pension Committee

- (c) (ii) Women in the Secretariat

In its decision GC.4/Dec.24, the Conference urged the Director-General to continue efforts towards recruiting women in posts subject to geographical distribution and in particular to accord priority to the increased representation of women at the P-5 and above levels within the overall targets set for 1993 and 1995. The Director-General was also requested to submit a progress report on the subject to the Conference at its fifth session through the Board at its eleventh session.

The Conference will have before it:

- Progress report on specific activities, submitted by the Director-General. Women in the Secretariat (GC.5/10, chap. XVII)

(d) Financial matters

The reports of the Board mentioned under item 12 (a) above will contain recommendations to the Conference concerning sub-items (i) to (v) below.

(d) (i) Scale of assessments of Member States

In accordance with rule 13.1 (k) of the rules of procedure of the Conference, the provisional agenda for each regular session of the Conference shall include recommendations of the Board for the establishment of the scale of assessments. Article 15 of the Constitution stipulates that regular budget expenditures shall be borne by the Members, as apportioned in accordance with a scale of assessments established by the Conference by a two-thirds majority of the Members present and voting, upon the recommendation of the Board. That Article also stipulates that the scale of assessments shall be based to the extent possible on the scale most recently employed by the United Nations and that no Member shall be assessed more than 25 per cent of the regular budget of the Organization.

In its decision IDB.11/Dec.23, the Board recommended to the Conference for the fiscal period 1994-1995 the establishment of a scale of assessments for the regular budget expenditures of UNIDO based on the scale of assessments adopted by the United Nations General Assembly in decision 47/456, to be adjusted if necessary to reflect any amendments approved by the General Assembly at its forty-eighth session and further adjusted for differences in the membership between the United Nations and UNIDO by the application to the United Nations rates of assessment of a coefficient to be calculated by the UNIDO Secretariat.

Concerning the split-currency system of assessment, the Conference in its resolution GC.4/Res.27, decided that the appropriation approved for the biennium 1992-1993 be assessed in the proportions of 11 per cent in United States dollars of the appropriation expressed at US\$ 1 = AS 12.90 and the balance in Austrian schillings. At the same time, the Conference decided to suspend for 1992-1993 the second sentence of financial regulation 5.1 (d) (i.e. "The initial assessment in Austrian schillings shall be established at the United Nations accounting rate of exchange in effect at the time the regular budget is adopted by the Conference") and requested the Director-General in consultation with the External Auditor to review the appropriateness of that sentence and to report thereon through the Programme and Budget Committee and the Board to the Conference at its fifth session. The conclusions of the Secretariat, elaborated in consultation with the External Auditor are contained in its report to the PBC on the subject (PBC.8/11). Both the Programme and Budget Committee and the Board took note of the Secretariat's report (cf. GC.5/3, para. 25).

The Conference will have before it:

- Board decision IDB.11/Dec.23 on the scale of assessments

- Scale of assessments for the apportionment of regular budget expenses for the fiscal period 1994-1995. Report by the Director-General (GC.5/28) g/
- Application of the split-currency system of assessment:

Report by the Secretariat (PBC.8/11)

Action taken by the Board (GC.5/3, para. 25)

(d) (ii) Financial situation of UNIDO

The Conference will have a report by the Director-General showing the financial situation of UNIDO as of 31 October 1993 (to be updated immediately before the opening of the session).

At its eleventh session the Board in its decision IDB.11/Dec.30, addressed a number of requests aimed at alleviating the financial situation of UNIDO. It also recommended to the Conference the approval of the adjustments to the 1992-1993 scale of assessments as described in paragraphs 9 to 13 of document IDB.11/6 as well as the temporary suspension of financial regulations 4.2 (b) and 4.2 (c), with respect to the 1990-1991 biennium so as to allow the non-budgetary (temporary) allocation of the unutilized balances of \$8,746,822 as reported in document PBC.9/7, statement II.B.

The Conference will have before it:

- Board decision IDB.11/Dec.30 on the financial situation of UNIDO
- Report on the financial situation of UNIDO as of 31 October 1993. Submitted by the Director-General (GC.5/26) g/

(d) (iii) Financial regulations

In addition to the question of the appropriateness of the second sentence of financial regulation 5.1 (d) raised in resolution GC.4/Res.27 (see item 14 (d)(i) above), the Conference, in its resolution GC.4/Res.28 related to guidelines for special trust fund projects, requested the Director-General to present a proposal to the Board at its tenth session, through the Programme and Budget Committee, on the application of financial rule 106.21 governing reimbursement for programme support and administrative services, taking into account the cost measurement study undertaken by the United Nations Development Programme (UNDP). Such a proposal was presented to the Committee and the Board (IDB.10/8, paras. 16-18). Both the Committee and the Board took note of that proposal (cf. GC.5/3, para. 26).

Concerning financial regulation 4.1, the Conference, in its resolution GC.4/Res.23, while deciding to adopt the additional proposals in Board decision IDB.7/Dec.13, maintained the proposed paragraphs (d) and (e) in square brackets and requested the External Auditor to submit a report to the Programme and Budget Committee at its eighth session on his views and comments on those paragraphs. It also requested the Committee to reconsider paragraphs (d) and (e) and report

to the Conference at its fifth session through the Board at its tenth session. In its decision IDB.10/Dec.10, the Board endorsed the opinion expressed by the External Auditor, in paragraph 32 (a) and (b) of his report (PBC.8/14) and decided to bring it to the attention of the General Conference for consideration.

The Conference will have before it:

- Report of the External Auditor with regard to his views and comments on proposed paragraphs (d) and (e) of financial regulation 4.1 (PBC.8/14)
- Board decision IDB.10/Dec.10 on financial regulation 4.1, paragraphs (d) and (e)

(d) (iv) Working Capital Fund

In accordance with financial regulation 5.4, upon recommendation of the Programme and Budget Committee and subsequently the Board, the Conference shall determine the amount and purposes of the Working Capital Fund. Financial regulation 5.5 (d) stipulates that advances to the Working Capital Fund shall be assessed and paid in United States dollars.

Information on the status of advances to the Working Capital Fund will be provided in an annex to the report on the financial situation (see sub-item 14 (d)(ii) above).

At its fourth session, the Conference in decision GC.4/Dec.16 decided that for the 1992-1993 biennium the level of the Working Capital Fund should be \$9 million and the authorized purposes of the Fund should remain the same as for the previous bienniums (see decision GC.2/Dec.27).

The Conference will have to take action on the recommendations of the Board concerning the level and purposes of the Working Capital Fund for the biennium 1994-1995, as contained in Board decision IDB.11/Dec.26.

The Conference will have before it:

- Status of advances to the Working Capital Fund as of 31 October 1993 (GC.5/26, annex) d/
- Board decision IDB.11/Dec.26 on the Working Capital Fund

(d) (v) Appointment of External Auditor

In accordance with financial regulation 11.1, an External Auditor, who shall be Auditor-General (or an officer exercising an equivalent function) of a Member State, shall be appointed in the manner and for the period decided by the Conference. By decision GC.1/Dec.34, the Conference appointed the Senior President of the Audit Office of Belgium as the External Auditor for UNIDO for a period of two years beginning on 1 July 1986, and subsequently by decisions GC.2/Dec.28, GC.3/Dec.22 and GC.4/Dec.17, it extended that appointment until 30 June 1994.

At its ninth session, the Programme and Budget Committee was informed that the Senior President of the Audit Office of Belgium would not be in a position to accept any further extension of the current appointment beyond 30 June 1994. Subsequently the Board in its decision IDB.11/Dec.28 recommended to the General Conference the appointment of the President of the Federal Court

of Audit of Germany as the External Auditor for UNIDO for a period of two years beginning on 1 July 1994.

The Conference will have to take action on the recommendations of the Board on the question of the appointment of an External Auditor for the period 1 July 1994 to 30 June 1996, as contained in:

- Board decision IDB.11/Dec.28 on appointment of External Auditor

(e) Computerization programme

In its decision GC.4/Dec.18, the Conference at its fourth session requested the Director-General, with a view to ensuring the transparency of all operations concerning the electronic data-processing (EDP) programme and avoiding a repetition of past difficulties, to report to the subsequent sessions of the policy-making organs on the programme and cost of implementing the consultants' recommendations and the recommendations of the External Auditor, as contained in documents GC.4/CRP.1 and GC.4/50, especially those concerning the disaster recovery plan, the organizational and functional changes and the internal control and evaluation of automation projects. It also requested the Director-General to keep Member States fully apprised of the EDP programme by quarterly briefings and informal notes (GC.4/Dec.18, para. (i)). Such briefings have taken place on a regular basis and progress reports were submitted to the eighth and ninth sessions of the PBC (PBC.8/15, PBC.8/CRP.2 and PBC.9/6) and the ninth, tenth and eleventh sessions of the Board (IDB.9/12, IDB.10/30 and IDB.11/23).

The Conference will have before it:

- Electronic data-processing programme. Report by the Director-General (GC.5/27) d/

Item 15. Programme and budgets, 1994-1995

In accordance with Article 14.4 of the Constitution, the Conference shall consider and approve the programme of work and the corresponding regular budget and operational budget submitted to it by the Board, by a two-thirds majority of the Members present and voting.

In its decision IDB.11/Dec.24 the Board decided to submit to the General Conference for consideration and approval the programme and budgets for 1994-1995 contained in document GC.5/14. In the same decision (para. (d)(v)) the Board also authorized the Director-General to adjust the appropriations recommended therein to take into account possible decisions at the resumed eleventh session of the Board of 28 to 29 October 1993 on the future role of UNIDO and to submit his revised proposals to the General Conference at its fifth session.

On 29 October 1993 the Board adopted decision IDB.11/Dec.40 in which it endorsed the proposals of the Director-General set out in document GC.5/23 on the future policy framework of UNIDO and its organizational and staff structure (see items 11 (a)(ii) and 11 (d)) and requested the Director-General to make the necessary adjustments to the proposed regular budget appropriations, on the basis of that document, not exceeding the level of the financial ceiling recommended in decision IDB.11/Dec.24. It also requested the

Director-General, keeping in mind financial regulation 4.3 (a), to redistribute the budgetary resources resulting from the implementation of decision IDB.11/Dec.40 in accordance with the new priorities and programmes proposed for the Organization and bearing in mind the development objectives of UNIDO. The Board also decided to convene an additional session of the Programme and Budget Committee on 22 November 1993 and to resume again, immediately thereafter, its eleventh session for the purpose of considering the adjustments to the proposals of the Director-General for the programme of work and related estimates for the 1994-1995 biennium.

The Conference will have before it:

- Board decision IDB.11/Dec.24 on the programme and budgets, 1994-1995
- Board decision IDB.11/Dec.40 on the future policy framework of UNIDO and its organizational and staff structure: programme and budgets, 1994-1995
- Programme and budgets, 1994-1995. Adjusted proposals on the basis of

- Industrial Development Board decision IDB.11/Dec.40. Submitted by the Director-General (GC.5/14/Rev.1)
- Any further recommendations emanating from the Board at its resumed eleventh session of 22 November 1993 (GC.5/4/Add.2)

Item 16. Date and place of the sixth session

Article 8.2 (a) of the Constitution stipulates that the Conference shall hold a regular session every two years, unless it decides otherwise. In the proposals of the Director-General for the programme and budgets for 1994-1995, provisions have been made for the holding of the sixth session of the General Conference for a duration of five working days.

Article 8.2 (b) of the Constitution also stipulates that regular sessions shall be held at the seat of the Organization, unless otherwise determined by the Conference.

Item 17. Closure of the fifth session



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## GENERAL CONFERENCE

Fifth session  
Yaoundé, 6-10 December 1993  
Item 3 of the provisional agenda

### ANNOTATED PROVISIONAL AGENDA

#### Explanatory note concerning pre-session documentation

In accordance with decision IDB.11/Dec.41 taken by the Industrial Development Board at its resumed eleventh session (28-29 October 1993) on the preparatory arrangements for the fifth session of the General Conference, certain revisions were made to the provisional agenda contained in document GC.5/13 that had been distributed in August 1993. The revisions, which consist mainly in the regrouping of some of the subjects affecting the original items 9, 11, 12, 13 and 14 are reflected in document GC.5/13/Rev.1, but could not be taken into account in the presentation of the General Conference pre-session documents, since most of those documents had already been distributed when the Board adopted its decision IDB.11/Dec.41. Thus the references to agenda items or sub-items on the cover page of the following documents should read as follows:

| Document symbol      | Document title                                                                                                                                                                                                                         | Items of the provisional agenda (GC.5/13) referred to in the document | Items in the revised provisional agenda (GC.5/13/Rev.1) |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------|
| GC.5/4               | Report of the Industrial Development Board on the work of its eleventh session                                                                                                                                                         | 11 (a)(i)                                                             | 12 (a)                                                  |
| GC.5/6/Add.1         | Common elements in the medium-term plan, 1992-1997: Mobilization of financial resources for industrial development. Policy directives: The external debt and industrial development. Progress report by the Director-General. Addendum | 9 (a) and 11 (b)(iii)                                                 | 9 (a) and 9 (a)(iv)                                     |
| GC.5/15              | International economic change and the industrial development of developing countries. Prepared by the Secretariat                                                                                                                      | 11 (b)(ii)                                                            | 11 (a)(i) and 11 (a)(ii)                                |
| GC.5/19              | Policy management: Evaluation activities of UNIDO. Report by the Director-General                                                                                                                                                      | 12 (a)                                                                | 13                                                      |
| GC.5/20              | Executive summary of industry and development: Global report 1993/1994. Prepared by the Secretariat                                                                                                                                    | 11 (b)(i) and 11 (b)(ii)                                              | 11 (a)(i) and 11 (a)(ii)                                |
| GC.5/21              | Matters related to inter-governmental, non-governmental, governmental and other organizations. Note by the Director-General                                                                                                            | 13 (a)                                                                | 14 (a)                                                  |
| GC.5/22              | Personnel Matters: United Nations Joint Staff Pension Fund. Issues related to the pension system. Report by the Director-General                                                                                                       | 13 (c)(i)                                                             | 14 (c)(i)                                               |
| GC.5/23<br>IDB.11/31 | Priorities and structural reform of UNIDO. Proposals by the Director-General                                                                                                                                                           | 12 (b)                                                                | 11 (a)(ii) and 11 (d)                                   |
| GC.5/24              | Headquarters agreement between UNIDO and the Republic of Austria. Report by the Director-General                                                                                                                                       | 13 (b)                                                                | 14 (b)                                                  |